

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-Sahara.

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

6.5	Conclusion.....	187
7.0	Chapter Seven: Data Analysis - Multivariate.....	188
7.1	Introduction	188
7.2	Test of Hypotheses dealing with MSE performance.....	188
7.2.1	Measurement of MSE performance and coding of variables.....	189
7.2.2	Results of Testing Hypothesis 1.....	193
7.2.3	Results of Testing Hypothesis 2.....	198
7.2.4	Results of Testing Hypothesis 3.....	205
7.2.5	Results of Testing Hypothesis 4.....	210
7.3	Implications of test results for Hypotheses dealing with MSE performance	217
7.4	Tests of Hypotheses dealing with Effectiveness of BDS delivery	219
7.4.1	Measurement of effectiveness of BDS delivery and coding of variables	219
7.4.2	Results of Testing Hypothesis 5.....	221
7.4.3	Results of Testing Hypothesis 6.....	227
7.5	Implications of test results for Hypotheses dealing with effectiveness of BDS delivery	229
7.6	Conclusion.....	231
8.0	Chapter Eight: Conclusion, Limitations and Further Research	233
8.1	Introduction	233
8.2	Summary	233
8.2.1	Summary of findings.....	237
8.3	Contribution.....	244
8.4	Implications	245
8.5	Limitations and Areas for further research.....	247
	Bibliography.....	252
	Annex 1 – Map of Kenya reflecting selected study sites	261
	Annex 2 – Interview Protocol – MSE Owner-manager	262
	Annex 3 – Interview Protocol – Microfinance Institution	268
	Annex 4 – Interview Protocol – BDS Agency	271
	Annex 5 – Interview Protocol – Independent Researcher.....	274

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 States 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 18: Participants' economic profile: pair-wise comparisons – BDS users vs. non users regardless of receipt of credit [c2 vs. c3]	131
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

1.0 Chapter One: Introduction

1.1 Introduction

At the turn of the current millennium, debate on what high-level goals are worthy of pursuit generated many issues; among them the need to improve the conditions of life for the majority of people around the world. Following the United Nations' resolutions now referred to as the Millennium Development Goals (MDGs), several developing countries, including Kenya, drafted their own version of wealth creation strategies within their main national socio-economic policy blueprints. Characteristic of these policy statements was the emphasis placed on poverty alleviation among the lower income class of people in developing countries (United Nations, 2000). So important is the issue that poverty reduction is ranked first in a list of eight MGS comprising the 2015 development agenda of the United Nations (2009).

Currently, in practice, most poverty alleviation efforts by states and major development agencies attempt to facilitate take up of an entrepreneurial culture rather than a reliance on relief efforts (Shaw, 2004). Such an orientation to development is driven arguably by several forces; first is that micro and small enterprises (MSEs) inevitably form the bulk of economic activity of the poor since they are the only forms of economic engagement poor people can afford. Second these enterprises are thought to require minimal training to run successfully; although this is debatable. Third and most important, there is seemingly a correlation between the existence of MSEs and certain aspects of economic development, particularly employment generation (e.g. Arch, 2005, Cook and Belliveau, 2004a).

The evolution of the micro enterprise is significantly intertwined into theories of entrepreneurship and especially those that focus on the individual person, referred to as the entrepreneur (e.g. Hisrich and Peters, 1998). It is the entrepreneur who out of his or her psyche or intuition seizes an opportunity and sets up a platform to exploit it. The propensity to engage in enterprise, according to Arch (2005), is determined by a collection of both psychological and behavioural attributes of human beings. Arch proposes a model that depicts existence of an opportunity (enabled by government policies), ability to engage in enterprise (measured in terms of an individual's potential for entrepreneurial and business skills), and certain socio-economic factors; as being the antecedents to the eventual creation of a new enterprise.

Upon identification of an opportunity, the personality traits of an individual play a critical role in the decision to engage in enterprise activity or not to. It is human nature that some people are more willing to take a risk and innovate while others are risk averse and harbour a wait and see attitude. The model emphasises the need to create an enabling environment through legislative efforts by governments and enactment of institutional policies that encourage innovation. However it is worth noting that the newly created enterprise may either not survive for long or run successfully without access to the necessary financial and technical support. Lack of start up capital remains one of the leading barriers to entrepreneurial activity among would-be entrepreneurs in developing economies (Arch, 2005, Atieno, 2001b). Access to affordable quality training is another. The concept of microfinance¹, and especially microfinance when it is accompanied by the development of business skills, has developed partly as an institutionalised response to this challenge.

Stated broadly, the purpose of this study is to examine users' perceptions of the significance of microcredit and business development services (BDS) in their association with MSE development in a developing country, Kenya, contextualised within the current poverty reduction discourse. This broad purpose is achieved by focusing on four specific objectives to be examined through the viewpoint of MSE owner-managers; namely to:

- assess the perceived costs and benefits of BDS to micro and small enterprises;
- assess the perceived significance of microcredit provision to micro and small enterprise performance;
- evaluate the perceived effectiveness of BDS delivery to micro and small enterprises; and
- evaluate the strategic fit between currently supplied BDS and MSE owner managers' (market) needs.

The purpose of the following sections is to provide background information about the social-economic profile of Kenya, microfinance activities around the world, and more particularly in Kenya. The aim is to posit the research questions and set the scene for assessing the impact of access to microcredit and BDS on the performance of owner

¹ Microfinance refers to programmes that promote self-employment of very poor people by providing technical assistance to business, credit, and other financial services (Micro Credit Summit, 1997).

managers' MSEs. The subsequent sections present discussions on the justification for the study, in particular stating its motivation and contribution.

1.2 Context – preview of Kenya's social-economic status

Kenya lies on the eastern part of the Sub-Saharan Africa region. Like most other countries in this region Kenya is a low income nation. As at 2007 the UNDP Human Development Report classified Kenya among the “medium human development” countries of the world, ranking it 148th out of 182 countries (UNDP, 2009). As at 2009, Kenya's national population was approximately 39 million people (up from 28.7m reported in the 1999 national census) and growing at a rate of about 2.7 per cent annually (CIA, 2010). This population is spread across more than forty different ethnic communities. The 2009 estimates show Kenya with a GDP per capita of US\$ 1,600 compared to a GDP per capita of US\$ 38,800 in the case of Australia (CIA, 2010). The gap between the rich and poor in Kenya is significant with an estimated Gini² coefficient of 0.477 (UNDP, 2009a). The rate of unemployment averages 40 per cent and current trends on the proportion of the population living below the poverty line (i.e. US\$ 1.25 a day) range between 52 per cent (UNDP, 2009b) and 56.4 per cent (KBC, 2010). However literacy levels among Kenyan adults average at 73.6 per cent (UNDP, 2009). According to Kenya's economic survey of 2007, the key sectors that make a significant contribution to the country's GDP are tourism, commerce, transport and communications, and financial services (GOK, 2007a).

The features described above make Kenya attractive for micro and small enterprise activity and consequently present great potential for microfinance operations. Kenya's microfinance industry is arguably the most developed within the Sub-Saharan Africa region and is host to not only the first MFI reported in Africa, but also to Equity Bank, voted the Emerging Markets most sustainable bank of the year (2009) in Africa and the Middle East (IFC, 2009). With most previous microfinance impact studies carried out in Asia and, to a lesser extent, in Latin America, situating this study in Kenya is timely and deserved, since it brings the Sub-Saharan region into the equation of developing economies.

² The Gini coefficient is a measure of inequality of income distribution within a country's population. It ranges from zero to one; where zero implies perfect equality and one indicates absolute inequality (World Bank, 2010).

1.3 Background: Overview of Microfinance and MSE Development

Microfinance is a popular instrument for promoting socio-economic development among poor people in the developing world. The roots of the modern method of microfinancing are commonly traced back to the 1980s and linked to the operations of the Grameen Bank of Bangladesh. This development instrument has been adopted readily by several developing countries including in Africa and Latin America.

As reflected in Table 1, as of 2007 there were more than 3,500 microfinance institutions (MFIs) collaborating with the secretariat for the Microcredit Summit Campaign, and the number appears to be on the increase. Globally MFIs are reported to have reached close to an estimated 155 million clients and impacted on nearly 550 million poor family members (Daley-Harris, 2009). Whereas these figures are a testimony that in terms of its reach microfinance is no longer ‘micro’, poverty, its enduring mission, still persists widely (Daley-Harris, 2009).

While global trends (for the period before 2007) in poverty reduction have been dominated by rapid growth in China, East Asia and the Pacific region; in sub-Saharan Africa, where GDP per capita shrank by 14 per cent, poverty rose from 41 per cent of the population in 1981 to 46 per cent in 2001, resulting in an additional 150 million people living in extreme poverty (Arch, 2005, World Bank, 2008, Muyanga et al., 2007). Following the recent (2008) global financial crisis, an estimated 55 to 90 million more people than was anticipated before the crisis are likely to be living in extreme poverty (United Nations, 2009) with large regional disparities expected.

Table 1: Global state of Microfinance

	2006	2007	Change
Number of MFIs reporting since 1997	3,316	3,552	7.1%
Number of MFIs reporting in 2007 & 2008 only	873	861	- 1.4%
Poorest clients by MFIs reporting in 2007 & 2008 only	807 (92.4%)	718 (83.4%)	- 11%
Total number of clients	133,030,913	154,825,825	16.4%
Total number of poorest clients reached	92,922,574	109,898,894	18.3%
Total number of poorest women reached	79,130,581 (85.2%)	106,584,679 (96.9%)	34.7%
Number of poorest family members affected [±]	464,612,870	549,494,470	18.3%

(Source: compiled from various ‘State of Microcredit Summit Campaign Reports’)

[±] assumes a five-member family size.

From a regional perspective, although more than half of the people of the Sub-Saharan Africa live on less than US\$ 1.25 per day (United Nations, 2009), the region has only 935 (27 per cent) of the more than three thousand MFIs operating in the developing world (see Table 2). In contrast, the Asia-Pacific region houses 1,727 (51.4 per cent) of MFIs in the developing world.

In terms of outreach, as at 2007, MFIs operating within the Sub-Saharan Africa region had a client base estimated at slightly more than nine million, representing 6 per cent of all MFI clients from the developing world, compared to the Asia-Pacific region with more than 129 million (86 per cent) clients. Table 2 further shows that of the 106 million poorest clients reached by 2007; nearly 91 per cent were from the Asia-Pacific, while Sub-Saharan Africa and Latin America and Caribbean accounted for 6 per cent and 2 per cent respectively. The MFI-client ratio in the Asia-Pacific region is 1: 74959, compared to a ratio of 1: 12679 and 1: 9828 for Latin America and the Caribbean and Sub-Saharan Africa, respectively. In general MFIs in the Asia-Pacific region appear to exhibit greater outreach compared to their counterparts in Sub-Saharan Africa, other factors notwithstanding. Whether or not it can be claimed they are subsequently more efficient or effective, however, is another issue and is beyond the scope of this thesis.

Table 2: Regional outlook of Microfinance

Region	Number of MFIs reporting	Total number of clients		Number of poorest clients	
		2006	2007	2006	2007
Sub-Saharan Africa	935	8,411,416	9,189,825	6,182,812	6,379,707
Asia and the Pacific	1,727	112,714,909	129,438,919	83,755,659	96,514,127
Latin America & Caribbean	613	6,755,569	7,772,769	1,978,145	2,206,718
Middle East & North Africa	85	1,722,274	3,310,477	755,682	1,140,999
Developing World Totals	3,360	129,604,168	149,711,990	92,672,298	106,241,551
North America & Western Europe	127	54,466	176,958	25,265	109,318
Eastern Europe and Central Asia	65	3,372,280	4,936,877	225,011	233,810
Industrialized World Totals	192	3,426,746	5,113,835	250,276	343,128

(Source: adapted from the 'State of Microcredit Summit Campaign Report', Daley-Harris, 2009, pg,26)

Although progress was made, as Table 1 shows, the target set by delegates to the first Microcredit Summit (1997) to reach approximately 100 million poor people with a microloan by the year 2005 was not achieved until two years later. Nevertheless according to World Bank estimates as at 2005, the microfinance industry posted a

turnover of more than US\$ 2.5 billion globally (Arch, 2005). Three years later (2008), the figure rose to US\$ 11.7 billion, nearly a quadruple increase, with 53 per cent of the investment funds coming from donors at below market rates (The Economist, 2009).

Consistent with the financial sustainability, poverty alleviation and feminist empowerment themes encompassed in Mayoux's (2000) taxonomy³ of the practice of microfinance, MFIs offer a diverse cluster of services. For example, microfinancing programmes run by development-conscious organisations such as non-governmental organisations (NGOs) mobilise member savings and integrate BDS in the delivery of microcredit to MSE owner-managers, akin to the 'gold standard' followed by the Grameen bank. On the contrary, operations of most MFIs owned by private firms pursue a minimalist approach offering mainly microcredit. Some of the other services offered by institutions under the microfinance umbrella include microinsurance, micropensions, and microleasing. Regardless, to date the main features distinguishing microfinancing from mainstream financial institutions are; first the granting of smaller loans, averaging US\$ 100, although this varies by country. Second, poor women tend to be the primary market for MFI loans whereas mainstream financial institutions often shun lending to the poor. Third, MFIs encourage their clients to start income generating activities and discourage use of loans for personal consumption. Fourth, applicants for micro loans are not required ordinarily to have tangible collateral and finally, savings tend to be a precondition for accessing microcredit (Khandakar and Constantine, 2004a,b), whereas this is not necessarily the case for mainstream financial institutions.

1.3.1 Microfinance and MSE development in Kenya – a Synopsis

Micro and small enterprises contribute about 18 per cent of Kenya's GDP and provide 72 per cent of employment (Ministry of Planning and National Development - Kenya, 2006, ILO, 2008). MSEs are spread widely across the country, with two thirds of them located in rural areas (Ministry of Planning and National Development - Kenya, 2006, ILO, 2008). This sector appears critical; firstly in respect of the growth of the Kenya's

³ Mayoux's (2000) taxonomy outlines three pillars that shape the design and delivery of microfinance services; namely financial sustainability, poverty alleviation and feminist empowerment. Whereas the aim of the advocates of the financial sustainability school of thought is to promote individually-owned enterprises, they encourage group-based lending as a risk mitigating mechanism. Proponents of the poverty alleviation view seek to enable a communitarian self-organised development of the poor people. For its part, the feminist empowerment paradigm is geared towards dismantling structures that oppress women both in the patriarchal order and within the working class (Edward and Olsen, 2006, Mayoux, 2000).

economy and secondly as an avenue towards poverty alleviation (Liedholm, 2002, Kibaara, 2006). Despite their large aggregate contribution, returns to individual MSEs vary tremendously. Among those MSEs that represent the sole source of income for households, 72 per cent make less than the absolute poverty line in urban areas and none of the MSEs in rural areas make above the absolute poverty line (Daniels, 1999). MSEs are engaged in a variety of business activities. In most parts of the world and particularly in Sub-Saharan Africa, MSEs are involved mainly in commerce, being basic trade either at wholesale or retail level (Liedholm, 2002). Similar observations were made by Richardson, Howarth & Finnegan (2004). With regard to Kenya, a significant number of MSEs engage in commerce with 74 per cent and 66 per cent in urban and rural areas respectively (Liedholm, 2002). Others are involved in agriculture, manufacturing, tourism, transport, telecommunications, and other services (ILO, 2008).

There are many challenges that stifle the operations of MSEs in various parts of the world. In the case of Sub-Saharan Africa in general and Kenya in particular, access to affordable credit is one of the main challenges facing MSEs despite efforts directed to the sector over the years (Hulme, 2000, Rogerson, 2001, Craig, 2005, World Bank, 2005a, Kibaara, 2006, Argwings-Kodhek et al., 2004b, GOK, 2006). Some of the other challenges facing MSEs in Kenya range from lack of access to markets, a weak legal framework, high interest rates, to limited access to non-financial services especially business advisory services, among others (Craig, 2005, Dondo, 2003, GOK, 2006, World Bank, 2005a).

In response to the credit challenge facing MSEs in Kenya, a number of financial models have emerged within MFIs or MFI-like organisations. These include the “...community owned rural financing models, private commercial bank led model, government led rural finance model, donor guarantees-input supply model, managed SACCOS-beach banking model and informal group based rural financing model” (Kibaara, 2006, pg. ii). Currently the number of known MFIs operating in Kenya is approximately close to 100 serving over four million clients with an outstanding loan portfolio of more than KES 2.3 billion (US\$30 million) (Aron, 2010). The majority of Kenya’s MFIs are set up and appear to operate under the auspices of non government organisations (NGOs). The MFIs serve an ever-increasing number of poor clients, but the demand for their financial services still far outstrips their capacity (Argwings-Kodhek et al., 2004b, ILO, 2008).

Despite the large number of players in Kenya's microfinance sector, the existing products and service delivery methodologies appear to fall below market demand. Discriminative practices and rationing behaviour among both formal and informal lenders continues to limit access to credit for most MSEs (Atieno, 2001b). For example the 1999 National Baseline Survey of MSEs in Kenya revealed that only 10.4 per cent of MSEs had received financial support from any source, including from MFIs, commercial banks, and money lenders. In addition, the reality is that MSEs need more than short term credit (Dondo, 1999).

One of the challenges to providing longer term credit to MSEs in Kenya is legislative. Restrictions in Kenya's Banking Act have had far reaching implications for the operations of the MFI sector. Because of the legal restrictions, most MFIs operating in the country are either legally set up as NGOs or private limited companies, limited by shares or guarantee (Argwings-Kodhek et al., 2004b). As a result, most Kenyan MFIs operate as credit-led programmes, offering short term credit mostly and in part along the Grameen bank group-based model⁴, thus limiting the extent to which these institutions can mobilise deposits to enhance their sustainability (Dondo, 1999). Some of the newer product offerings in the microfinance sector available in other locations, for example, microinsurance, micropensions and microleasing services, are yet to be launched.

On the whole there has been minimal innovation in both products and delivery methods for microfinance services in Kenya. Currently, most MFIs offer a single product (microcredit) to a single MSE customer segment, through a single methodology, thus reaching a limited segment of the potential market. This approach has left out important segments of the poor, for example smallholder agricultural activities, which the majority of the poor in rural Kenya depend on for their livelihood (Atieno, 2001a, Johnson et al., 2006, Dondo, 1999).

⁴ The Grameen Bank of Bangladesh has successfully pioneered group-based lending primarily targeting Women in the MSE sector. The model has been widely replicated by MFIs operating in several developing countries e.g. Bolivia, India, and Kenya among others.

1.3.2 Statement of the problem

Since the nineties there has been a significant increase in the number of MSEs in Kenya, especially in the urban areas like Nairobi, Eldoret, Kisumu and Mombasa. This trend is bound to continue due to factors such as rural – urban migration, employee retrenchment and the persistent high rates of unemployment. Despite the sector's rapid expansion, most of these enterprises remain outside the formal banking sector due to their perceived high risk.

This structural isolation of MSEs from mainstream banking has led to the establishment of a significant number of MFIs (now close to 100), which claim to provide various forms of support to MSEs, including short term credit, management training and other related BDS. The purpose of this study is to assess owner-managers' perceptions of the role of BDS and or microcredit, in the context of microfinance, in promoting the performance of micro and small enterprises in Kenya. Specific hypotheses are developed in chapter three, but in order to provide the reader with some idea of the areas covered in this thesis, the following research questions are posed for examination in the context of the geographic location of Kenya:

- 1) What services do external support agencies offer MSE owner-managers currently?
- 2) Which support services do MSE owner-managers most commonly use?
- 3) What are users' perceptions of the usefulness and limitations of BDS and microcredit on the performance of their enterprises?
- 4) Given inclusion in a microfinance programme, is there a difference in the owner-manager self-assessed performance of micro and small enterprises contingent on receipt of BDS?
- 5) How satisfied are MSE owner-managers with current BDS delivery?

Research Questions 1 and 2 are answered descriptively, whilst Research Questions 3, 4 and 5 are developed (see chapter three) into substantive hypotheses to be tested both univariately and multivariately. The next section expands on why providing answers to the research questions presented above is important and will make a contribution to the stock of knowledge in the subject area of this thesis.

1.4 Motivation

Most poverty alleviation efforts have a bias towards encouraging entrepreneurial activity to try and bridge ‘the dollar gap’. According to authors (Cook and Belliveau, 2004a, Arch, 2005), economists have long suggested, and empirical evidence supports, that there is a positive relationship between extent of MSE activity and employment creation, among other aspects of economic development in a country.

Although microfinancing has become popular as a development instrument only in the last two decades, it has attracted considerable research interest among policy makers, practitioners and academics alike. A survey of literature on the significance of microfinancing on MSE development shows a variety of themes. While some researchers have had interest in understanding the dynamics of gender and power with regard to control over use of loan funds (e.g. Goetz and Gupta, 1996); mechanisms behind the microfinance promise (e.g. Morduch, 1999, Edward and Olsen, 2006); and the moral and political philosophical perspectives to microfinance (Khandakar and Constantine, 2004b); others have had a focus on the effects of microfinancing on development policy in general (e.g. Arch, 2005) and third world development in particular (Khandakar and Constantine, 2004a). Additionally researchers have made attempts towards elaborating principles for ‘best practice’ in microfinance (Ledgerwood, 1999, Remenyi, 2002, Gibson, 1997). Yet others question not only the ethics behind a commercialised approach to microfinance (Schmidt, 2010, Young, 2010) but also its appropriateness, specifically in post-conflict environments (Shaw and Clarke, 2006), and its application across cultural ideologies and material conditions in particular locales (Shakya and Rankin, 2008).

Equally varied are studies on the impact of microfinance on either the poverty situation in poor communities or the development of their enterprises. With the household as a locus for most impact studies (e.g Morduch, 1998, Khandker, 2005), few use the enterprise as the unit of assessment, with studies such as that by Hartarska and Nadolnyak (2008) being important exceptions. Some studies however do assess impact of microfinancing at either the specific programme or individual participant level. Notable among these are programme evaluation studies commissioned by the World Bank such as Pitt and Khandker (1998) and the series by USAID - Assessing the Impacts of Microenterprise Services (AIMS) conducted in India, Zimbabwe, and Peru

(Goldberg, 2005). Yet other researchers are concerned with the methodology of assessing impact (e.g. Hulme, 2000, Khalily, 2004, Wright and Copestake, 2004). In general while some of these studies report a positive impact of microfinance on household income (e.g. Pitt and Khandker, 1998, Khandker, 2005), this claim is also disputed (e.g. Morduch, 1998, Khandakar and Constantine, 2004a).

With regard to the significance of BDS on micro and small enterprise development, an overview of the literature shows few relevant studies. Researchers have so far examined the influence of human capital attributes and viability of strategies for enterprise education (Cook and Belliveau, 2004a, Pittaway and Hannon, 2008); use of consultants and entrepreneurs' attitudes towards training and support initiatives (Faoite et al., 2004, Boter, 2005, Klyver, 2008); and contemporary training – awareness, interest and implementation in small businesses (Matlay, 2004, Eikebrokk and Olsen, 2009, Jayawarna et al., 2007). The subject of MSE growth has also attracted a few researchers (2007, Kotey and Sheridan, 2004, Masakure et al., 2009); for example Sievers and Vandenberg (2007) explore the benefits of linking microcredit with BDS using secondary data from selected MFIs while Berry & Sweeting (2006) look into effects of external advice on micro and small enterprise performance.

Research on the impact of BDS on MSEs is scanty, and where impact has been assessed, the results appear inconclusive. Matlay (2004) observes that while small business owner managers are aware of the existence of training opportunities (especially those sponsored by governments), their usage of such services has remained low. More importantly, however, "...none of these initiatives appears to have made a significant impact upon the skill levels and/or the competitiveness of smaller firms" (Matlay, 2004, pg, 512) . This may be due to a mismatch between small business training needs and the services offered by trainers. Nevertheless the necessity for micro and small enterprise support cannot be questioned. Authors (Matlay, 2004, Porter, 1998, Faoite et al., 2004, Sievers, 2007, Boter, 2005) observe that where governments have established policy measures that support innovative training initiatives, as is the case in France, Germany, Japan and the USA, growth in the SME sector has been recorded.

Until the mid 1990s most MFIs sourced loan funds from donors who share in the mission of alleviating poverty. In the pursuit of efficient allocation of resources, the donor community is putting pressure on MFIs to move towards financial self-

sufficiency in their operations (Boter, 2005). Following this development, there is now fear of a possible ‘mission drift’ (Christen, 2000) and that provision of BDS may be neglected (Boter, 2005, Armendariz and Morduch, 2010). With most of the BDS studies reported here conducted in the context of developed economies, especially USA and Europe, there is a need to reveal more about BDS needs and supply in the developing world. A brief preview of the study findings is presented next.

1.5 Overview of Findings

In general the study finds that MSEs receive two forms of facilitation from external MSE support agents. Firstly, are microcredit services provided primarily by MFIs and, to a lesser extent, by other related providers of financial services such as commercial banks, and SACCOs. On the surface the findings show that MFIs are the primary source of microcredit for MSEs in need of extra funds for working capital purposes, acquisition of business assets, and expansion of operations, among other needs. In the Kenyan context, provision of savings facilities to MSEs is found to be a frequent feature across most microfinancing operations. Other microfinance products like insurance, micropension schemes, and microleasing are not commonly reported among Kenyan MFIs.

On average, the quoted interest rate for an MFI loan is reported as being higher than that of mainstream commercial banks, with the lower bound starkly beyond ten points of the government’s base lending rate. Although most microcredit users perceive its cost to be affordable, this might arguably be more an expression of lack of a better alternative than anything else. The findings further reveal that, surprisingly, in contrast to the literature surrounding MFI practices and received wisdom, some form of tangible collateral remains a requirement for MSE owner managers applying for microcredit, even when lending is group-based. MSE owner-managers report also that current terms and conditions surrounding access to microcredit are not only stringent, but also a major constraint to their business operations. However the findings do reveal that in most cases MSE owner-managers with access to microcredit perceive that this access improves the general performance of their enterprises.

Besides microcredit, the second most commonly reported form of MSE facilitation is human capital development and various forms of technical services, which are both provided under the banner of business development services (BDS). Provided mainly by

NGOs and private consultants, in its various forms BDS is reported as accessible to MSE owner-managers either singly or jointly with microcredit. Generally the findings show that MSE owner-managers' BDS preferences revolve around facilitation in financial management, marketing, and to a lesser extent technical operations. It is however noted that predominantly, MFI-linked BDS takes the form of training in group dynamics, moral support, and general advisory services in business management; aspects that partly serve to address the hurdles of credit delivery among MFIs but which are notably unmatched to BDS needs of the clients – at least for the sample MSE owner-managers examined in this study.

The findings indicate that, in general, MSE owner-managers in receipt of BDS report skill development as the main benefit accrued, even though some express fears of potential breaches of privacy. Additionally, although the cost of BDS is perceived to be modest, especially when BDS is sought jointly with microcredit or partly subsidised, MSE owner-managers perceive it as unaffordable when sourced singly from private consultants unaffiliated to either MFIs or NGOs. In general however, the study reports satisfaction with BDS delivery amongst MSE owner-managers, most of whom record high scores on self-rated performance by their enterprises. Apart from access to BDS and microcredit, MSE owner-managers' gender and education level are among other factors that influence perceptions on the performance of their MSEs. Compared to their male counterparts, female MSE owner-managers report higher performance ratings for their enterprises, regardless of access to microcredit or BDS. It can be inferred from these findings that MSE owner-managers with higher levels of education are better placed not only to identify the need for particular advice, but also possess the initiative to apply the skills learned in managing their enterprises.

In terms of whether there is a difference in owner-managers' self-assessed performance of their enterprises contingent on their use of both BDS and microcredit - the findings are in the affirmative. Compared to their counterparts who use either or neither BDS or microcredit, perceptions with respect to the performance of their enterprises by MSE owner-managers in receipt of both BDS and microcredit are generally higher. The next section discusses the contribution made by this study.

1.6 Contribution of the Study

The contribution of this thesis to knowledge and to the literature falls into three categories; namely theoretical, practical and regulatory. Theoretically the thesis examines and applies two frameworks (Bourdieu's theory of practice and neo-institutionalism) that together can explain the relationship between observed practice in microfinance and progress made in promoting MSE development, both of which are so important in the anti-poverty campaigns within developing economies. Previous studies of this relationship have been mostly atheoretical; take a suppliers' perspective (e.g. Pitt and Khandker, 1998, Snodgrass and Sebstad, 2002, Khandker, 2005); and tend to focus on institutionalisation and the outreach of microfinance programmes, making claims about the expected economic benefits to households (e.g. Morduch, 1998, Seibel and Kumar, 1998, Remenyi, 2002). The thesis firstly employs Pierre Bourdieu's critical theory on practice to isolate and situate the contending logics in the field of microfinance within the anti-poverty discourse. In so doing the thesis provides not only evidence of but also insights to the existence and nature of seemingly parallel forces behind practice variations in the field of microfinance, notwithstanding the claim of poverty alleviation being the underlying mission.

Secondly, the thesis extends existing literature on BDS/training and its impact on MSE performance by empirically examining this relationship from the broad perspective of the poverty reduction discourse and specifically in the context of MSEs operating in a developing economy. Thirdly the study adds to the qualitative literature by eliciting from MSE owner-managers their perceptions of the costs and benefits associated with access to BDS and microcredit, both jointly and separately. It then goes on to test empirically whether the benefits cited are associated with superior self-rated performance of their enterprises. To achieve this, in addition to focusing on the enterprise as the unit of assessment rather than households, the thesis adopts a user's perspective to the inquiry about the relationship between microcredit and BDS, and MSE performance in the context of poverty alleviation.

Against this background, the thesis uses a Q-Squared⁵ approach to concurrently collate views of stakeholders and more importantly of MSE owner-managers, as users of both or either BDS and microcredit, on the perceived performance of MSEs as one of the

⁵ A Q-squared methodology is a mixed methods approach to scientific inquiry that combines qualitative and quantitative techniques (Kanbur and Shaffer, 2005).

principal economic units available to the poor. It is worth noting that the adoption of a Q-Squared design in this type of study is reasonably rare since most previous studies on the impact of microfinance use quantitatively analysed surveys. Sharma and Buchenrieder (2002, pg, 231) and Habib (2008) provide a list of such studies. By blending quantitative analysis with interview data from both demand and supply side stakeholders in the microfinance field, triangulation occurs and more insights are provided when interpreting the results. Lastly, informed by the empirical literature and Pierre Bourdieu's conceptions, augmented by neo-institutionalism, this thesis develops a conceptual framework that can be applied to future studies on microfinancing both as a field and a practice.

From a practical perspective however, while the benefits that might accrue to MSEs with access to either microcredit or BDS have been documented (Dawson, 1997, Bennett and Robson, 1999, Remenyi and Quinones, 2000, Berry and Sweeting, 2006, Anami, 2009), there is scant evidence of testing for their synergistic value (Sievers and Vandenberg, 2007). The literature appears to portray provision of BDS to MSEs as an unnecessary cost burden to MFIs seeking financial self sufficiency, especially given claims of lack of demand for the same (Sievers and Vandenberg, 2007) . With the help of primary 'user-based' data, this study's findings help to dispel such claims; first it demonstrates that demand for BDS among MSEs in developing countries exists whether BDS is linked to access to microcredit or not. Second, though it may not be in the interest of MFIs pursuing financial self-sufficiency, this study tests specifically for the perceived impact of the use of BDS and microcredit on the owner-manager self-rated performance of MSEs, an attempt that has been previously overlooked. This study therefore not only helps quantify the benefits associated with access to microcredit and BDS as correlates, jointly and severally, on MSE performance, in the context of developing countries. It also informs debate on the demand for and supply of BDS provision among MSEs, especially those with potential for growth within the context of poverty alleviation.

Further, the study's findings may serve to enlighten microcredit providers and their BDS counterparts on bottlenecks surrounding access to and use of microcredit and/or BDS in light of the specific growth needs and preferences of MSE owner-managers. Such insights could go a long way in shaping either revision or future development of new products and mechanisms for the delivery of pro-growth microcredit and BDS. In

essence this may facilitate achievement of an improved strategic fit between microfinance policies and practices on the one hand, and MSE needs on the other. This thesis is the first of its kind to use data from Kenya to not only undertake empirically a comprehensive inquiry of stakeholders' views on BDS provision to MSEs but also, and more importantly, test for its complementary value to the perceived performance of MSEs in receipt of microcredit.

In regulatory and public policy terms, this study contributes by providing insights that might better inform debate on the role of BDS in microfinance practices aimed at alleviating poverty through the MSE environment. With current trends seemingly pointing towards pursuit of a more commercial and minimalist approach to microfinancing, better understanding of the synergistic benefit of BDS to the growth and performance of MSEs, will inform policy makers, practitioners, and regulators of microfinancing at a time when the future of BDS supply appears uncertain. The study is therefore likely to provide strategic insight to governments and development agencies working in developing economies on ways to improve BDS delivery, within the current Poverty Reduction Strategy Papers (PRSP) policy framework⁶. Additionally it may facilitate the establishment of more effective policy guidelines and appropriate regulatory frameworks for microfinance operations.

In a nutshell this study examines the subject of BDS delivery and MSE development, as embedded in microfinance programmes, using empirical data based on MSE owner-manager stakeholder perceptions in the context of Kenya, representing developing countries where the bulk of MSEs and MFIs are found. The study contributes to bridging the knowledge gap (with respect to developing economies) in respect of this important field. It does so by creating a conceptual framework that can explain variation in the practice of microfinance in any region, particularly in relation to the supply of BDS in conjunction with microcredit. Further, eliciting and then analysing the

⁶ The PRSP approach is a joint initiative of the IMF and the World Bank towards achieving a comprehensive country-based strategy for poverty reduction. In this framework, poverty reduction strategies should be; country-based, emphasizing a broad participation of civil society and other key stakeholders in national economic policy; results oriented, targeting outcomes that are likely to benefit the poor; holistic in recognition of the multidimensional nature of poverty; and with a long-term perspective (www.imf.org).

experiences of both MSE owner-managers and representatives of their BDS support agencies, it examines issues in a holistic manner.

1.7 Structure of Thesis

The remainder of this thesis is structured as follows; chapter two opens with a brief background on the socio-economic situation in Kenya before discussing the state and significance of MSE development, and the role of microfinance in the country. This chapter presents also a review of literature related to BDS and MSE development. This is followed by chapter three, which posits two concurrent theoretical frameworks providing guidance to a critical discussion of the literature on the emergence, practice variation, and trends that have marked the development of modern day microfinancing. This chapter closes by outlining the study's hypotheses for testing.

Chapter four offers methodological considerations for the thesis. It provides a detailed account of the design, practical specifications, and justification for methods employed to guide sampling, choice of tools and techniques for data collection and analysis adopted in the study. Next, chapter five introduces data analyses by statistically presenting a detailed profile of the study's sample. This is followed by chapters six and seven, both of which are devoted to more in-depth analysis, interpretation, and discussion of findings with regard to the posited research questions. These two chapters provide also the results of tests of hypotheses using univariate as well as multivariate techniques. A summary of the findings, conclusions, and suggestions for further research are presented in chapter eight. Following this introduction is chapter two which is next presented.

2.0 Chapter Two: Further Background and Related Literature

2.1 Introduction

After the brief introduction to the topic in the previous chapter, this chapter draws out detailed information on the study's context, specifically the characteristics and dynamics of the micro and small enterprise (MSE) sector in Kenya. The chapter provides also a review of literature relating to business development services (BDS) and performance of MSEs. This chapter is organised into three major sections. Following this introduction is section one which examines the current state of the MSE sector in Kenya. In this section the focus is on the economic significance and the general attributes of Kenya's MSEs, including their size, ownership and nature of business activity, among others. The section also provides insights into the main challenges faced by MSEs in Kenya as reported in recent literature. The second section of the chapter is devoted to outlining the contribution of Kenya's microfinance sector towards the development of the country's MSEs. In particular, the section presents a synopsis of services offered by Kenya's microfinance institutions (MFIs) and discusses the responses of Kenya's MSEs to this development. Followed by a conclusion to the chapter, the third section presents a review of literature on the association between access to BDS and MSE performance.

2.2 MSE development in Kenya: the Role of Microfinance

Before discussing the outlook of the MSE sector in Kenya a brief review of the country's economic status is warranted as it sets the context within which the sector operates. With a population close to 39 million people and a per capita income of US\$770 (Library of Congress, 2007, World Bank, 2009b), Kenya is categorised as the 20th poorest country in the world (Sabana, 2005). As of the year 2005/6, economic estimates indicate that more than half of Kenya's population (52 per cent) lives in poverty⁷ with more than three quarters (85 per cent) of the poor living in rural Kenya (UNDP, 2009a).

⁷ As at 2006 the overall rural and urban poverty lines are approximately US\$0.75 and US\$1.40 a day per person respectively. These figures are inclusive of provisions for both food and non-food expenditure (World Bank, 2009).

The main pillar of Kenya's economy is agriculture. As at 2004, the contribution of agriculture to the country's GDP was estimated at 25.7 per cent (World Bank, 2009a). Between 2001 and 2006 the average growth in Kenya's agricultural sector was 2.5 per cent (Wambugu et al., 2009). According to Table 3 below, the significance of agriculture seems to be declining, registering a GDP contribution of 21 per cent in 2008 compared to 32 per cent in 2000. Kenya practices mainly rain-fed agriculture the productivity of which is susceptible to frequent droughts. The other sectors with significant GDP contributions include; services (e.g. trade, tourism, transport and communications) and industry (e.g. manufacturing, building and construction) (Library of Congress, 2007, World Bank, 2009a). As reflected in Table 3 below, the average GDP contribution of these two sectors between 2000 and 2008 was 56.5 per cent and 16.8 per cent in favour of services. The services economic cluster within which MSEs are included is gaining prominence over time. The most recent government policy strategy on wealth creation (2003-2007) seems to point to this direction with increasing emphasis being placed on telecommunications, financial services and MSEs (GOK, 2006).

Table 3: Economic data profile- Kenya

	2000	2005	2007	2008
Social indicators				
Population, total (millions)	31.25	35.60	37.53	38.53
Population growth (annual %)	2.6	2.6	2.6	2.6
Surface area (sq. km) (thousands)	580.4	580.4	580.4	580.4
GNI ⁸ per capita, Atlas method (annual current US\$)	420	520	660	770
General & Sectoral				
GDP (current US\$) (billions)	12.69	18.77	26.95	34.51
GDP growth (annual %)	0.6	5.8	7.0	3.6
Inflation, GDP deflator (annual %)	6.1	5.2	4.7	27.0
Agriculture, value added (% of GDP)	32	27	26	21
Industry, value added (% of GDP)	17	19	18	13
Services, etc., value added (% of GDP)	51	54	56	65
Exports of goods and services (% of GDP)	22	28	26	25
Imports of goods and services (% of GDP)	32	36	37	39

(Source: adapted from various annual reports from Central Bank of Kenya; The World Bank Group, 2009)

Kenya's informal sector is the second largest most significant source of self employment, following agriculture. As at 2005/6, among the Kenyans who were engaged in various forms of self-employment, 4.3 million were in the informal sector compared to 6 million in the agricultural sector. During this period there were only 1.7 million reported to be engaged in formal sector employment. This reflects 36 per cent,

⁸ Gross National Income (GNI) per capita is the average gross income for every individual Kenyan citizen. It is calculated by taking the annual countrywide GNI divided by national population.

50 per cent and 14 per cent of the employed population respectively (Wambugu et al., 2009). Among other factors, high levels of poverty combined with low rates of economic growth continue to push most Kenyans into self-employment in the informal sector. In Kenya as is the case elsewhere, self-employment usually takes the form of setting up a micro or small business.

The significance of the MSE sector in Kenya is self evident. According to a 1999 baseline survey of Kenya's MSE sector (the only one of its kind to date), the sector's contribution to the country's GDP stood at 18 per cent as at 1999, up from 13.8 per cent in 1993. This sector is host to an estimated 72 per cent of employment opportunities in the country represented in agricultural, trade and other forms of informal business activities (Ministry of Planning and National Development - Kenya, 2006, GOK, 2005). With two thirds (65.6 per cent) of MSEs located in the rural parts of Kenya (Ministry of Planning and National Development - Kenya, 2006), MSEs are a prominent characteristic across the country. The sector is important not only as concerns the growth of the country's economy but also as a channel towards poverty alleviation (Liedholm, 2002, Kibaara, 2006, GOK, 2005).

The MSE sector in Kenya is fast growing and is likely to continue to be so in the foreseeable future. There are a number of factors responsible for this scenario; namely a contracting formal sector, evidenced by massive staff retrenchments, low economic growth, and poor implementation of economic policies on the part of the government, among other factors. Results of the baseline survey conducted on the MSE sector by the Kenya National Bureau of Statistics (KNBS) in 1999 reflected that 2.4 million Kenyans were actively employed in the sector (see Table 4 below). This figure grew to 5.1 million people in the year 2002, implying an additional 675,000 jobs were created in this sector every year (GOK, 2005).

Table 4: Total number of Kenyan MSEs and their corresponding nationwide employment share

National Strata	National Population share of strata	No. of MSEs	% of MSEs	No. Employed	% Employed	Average Size of MSEs (no. employed)
Nairobi & Mombasa	9.7	204,280	15.8	399,498	16.9	2.0
Other major towns	6.2	157,533	12.2	279,431	11.8	1.8
Smaller towns	2.1	81,320	6.3	133,086	5.6	1.6
Rural areas	82.0	845,879	65.6	1,556,389	65.7	1.8
Total	100.00	1,289,012	100.0	2,368,404	100.0	1.8

(Source: 'National MSE Baseline Survey', KNBS, 1999, pg. 18)

As at the year 2002, the MSE sector in Kenya shouldered more than 74 per cent of the employed population and contributed about 13 per cent to national income (GOK, 2005). Despite their large contribution as a whole, returns to individual MSEs vary tremendously. Among those MSEs that represent the sole source of income for the household, 72 per cent make less than the absolute poverty line in urban areas and none of the MSEs in rural areas make above the absolute poverty line (Daniels, 1999).

MSEs are engaged in a variety of business activities. On the whole, MSEs in most parts of the world and particularly in Sub-Saharan Africa are involved mainly in commerce i.e. basic trade either at wholesale or retail level (Liedholm, 2002, Richardson et al., 2004). With regard to Kenya, a significant number of MSEs engage in commerce with 74 per cent and 66 per cent in urban and rural areas respectively (Liedholm, 2002). Additionally results of the government's National Baseline (1999) Survey show that 64.3 per cent of the MSEs engage in trade, 14.8 per cent in services, while 13.4 per cent are involved in various forms of manufacturing activities (GOK, 2005). The following table, Table 5, reflects the diverse nature of MSEs in Kenya in comparison with other selected countries from Sub-Saharan Africa.

Table 5: Characteristics of MSEs in selected countries from Sub-Saharan Africa

	Kenya	Botswana	Zimbabwe
Sectoral breakdown of urban MSEs (%)			
Manufacturing	18	15	64
Commerce	74	71	30
Sectoral breakdown of rural MSEs (%)			
Manufacturing	27	34	75
Commerce	66	64	16
Share of female owned MSEs (%)	46	75	66
Share of MSE employment -age 15-64 (%)	18	17	27
Share of one-person MSEs (%)	47	65	69
Share of MSEs with 10-50 workers (%)	2	3	2
MSE average annual employment growth ⁹ (%)	29	8	7

[Adapted from (Liedholm, 2002) pg. 229]

From Table 5 it is clear that as at the year 2002, Kenya had more MSEs engaging in commerce¹⁰ (74 per cent for urban based and 66 per cent for rural based MSEs) than other countries in the Sub-Saharan African region. Within this same period it is observed that Kenya had fewer female owned MSEs (46 per cent) compared to Botswana (75 per cent) and Zimbabwe (66 per cent). While this may be true, the concept of ownership may vary across national cultures. For example some married women in Kenya may not take full title of ownership of their enterprises as this goes against social and cultural values (Mutuku, 2005). With regard to the size of MSE, as indicated by staff numbers, within the Sub-Saharan region most MSEs are small, employing less than ten workers. However Kenya appears to have fewer one-person enterprises (47 per cent) compared to Botswana (65 per cent) and Zimbabwe (69 per cent). It is noted that MSEs' share of national employment for the population aged 15-64 is similar (17-18 per cent) across the region, except for Zimbabwe (27 per cent). Additionally and in general terms, MSEs in Kenya have higher employment growth (29 per cent) than other countries across the two regions (7-8 per cent). However, This does not necessarily mean that Kenyan MSEs are expanding in real terms.

⁹ Simple average calculated as follows; [(current employment- initial employment)/initial employment]/age of enterprise.

¹⁰ In the Kenyan context MSEs mainly undertake retail trade in e.g. farm produce, household commodities, furniture, small scale manufacturing, clothing, electronics, telecommunications services, bars & restaurants, butcheries, music & entertainment services, and public transport, repairs & maintenance services, pharmacy/drug stores, beauty services, among other activities.

Despite the significance of MSEs to Kenya's economy there are several challenges that limit the sector's growth potential. These challenges may be grouped into three categories namely; unfavourable regulatory and policy environment, limited access to credit and technical services, and under-developed infrastructure. Most of the facts presented in the following discussion are drawn from the most recent Sessional Paper No. 2 of 2005 on 'Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction' of the Republic of Kenya. Each of these factors is discussed next.

2.2.1 Unfavourable regulatory and policy environment

Although MSEs have been traditionally a significant sector in Kenya's economy, successive governments have not come up with a comprehensive policy framework to guide the sector. For example in its Sessional Paper No. 2 of 1992, the Government of Kenya noted the potential of the MSE sector in creating jobs and helping in the fight against poverty. However this acknowledgement was not followed by an effective supportive framework to see it to fruition (GOK, 2005, GOK, 2006). To date the only officially recognised comprehensive survey of the MSE sector in Kenya was conducted in 1999. Results from this survey continue to be the benchmark the government is using now more than a decade later¹¹.

Fifteen years later, the government of Kenya revisited the MSE issue in its Sessional Paper No. 2 of 2005 in which several policy and regulatory bottlenecks were outlined. The first among these challenges relates to the fact that attempts to design an all inclusive policy framework have been stymied with conflicts of interest among stakeholders, which serve to the derail the process. The second challenge pertains to the laws and regulations which have often been seen to be holding back the development of the MSE sector in the country. In most local councils' by-laws on, for example; site and business registration, connection to utilities, tax, and license fees and levies are not standardised (GOK, 2005, GOK, 2008). Thirdly, complex bureaucracy in dealing with multiple government agencies for matters pertinent to MSEs and their informal nature make the day to day operations even more costly. For example, in licensing a restaurant the site requires approval of the Ministry of Local Government and the local council administration, business name registration from the Registrar of Companies, connection

¹¹ This is the only MSE survey report that appears in the official web site of the Kenya National Bureau of Statistics, www.knbs.go.ke.

to utilities by Ministries of Energy and Water, while the Ministry of Health handles the trade license.

The fourth policy-related challenge faced by Kenyan MSEs has to do with harassment from ‘law enforcement’ agents. It is common knowledge among MSE owners that one of the competencies for success in their businesses is to find a way of managing authorities, especially local council ‘askaris’ (Swahili word for local council agent-soldiers). Managing local authority agents usually takes the form of giving bribes, a practice so common and frequent that it could be officially recognised in the ‘books of accounts of both entities’. This challenge is made worse by the fact that the judicial system is complex with an etiquette far removed from the realities of MSEs (GOK, 2005).

Fifthly the current tax regulation is more of a hindrance rather than a facilitator of MSE growth. The regime does not encourage MSEs to apply for tax registration. Due to the high costs associated with tax compliance in Kenya, most MSE owner-managers shy away from formalising their businesses (GOK, 2005). In addition there is laxity on the part of tax authorities to enforce anti-dumping tariffs on imported wares, which poses unfair competition on local MSE products (GOK, 2007c, GOK, 2008). Lastly most MSE owner-managers’ lack security of tenure, either in the form of title deeds or lease arrangements for their business sites and premises. As a result, most MSEs operate in temporal structures often under the threat of demolition by local authorities. This not only makes it difficult to invest in the long term development of the business entity, but also limits access to credit (GOK, 2005), an issue discussed later in this section.

2.2.2 Under-developed infrastructure

Some of the challenges included in the category of under-developed infrastructure are poor physical infrastructure, lack of access to markets, limited access to strategic information, poor linkages with the large corporations, and occupational health hazards. Kenyan MSEs, indeed as may be the case for all businesses operating in the country, are subjected to the poor state of the road network (GOK, 2008, GOK, 2005). Some of the other physical infrastructure related problems facing Kenyan MSEs are inaccessibility to tenured land or workspace and costly and unreliable supply of water and electricity (Wambugu et al., 2009). These infrastructural challenges contribute significantly to cost

of production and marketing of goods and services by MSEs in Kenya, rendering them uncompetitive in the face of imported substitutes (GOK, 2005, WWB, 2009).

Aggregate demand for goods in Kenya is low due to low incomes and the situation is made worse by ineffective regulatory practices on dumping of imported wares, which serves to saturate the local market. While this may be due partly to poor access to up to date market information, which is often lacking, Kenyan MSEs may not yet be ready to compete in a liberalised global market economy. Due to the duplication of business efforts, the intensity of competition often results in high MSE mortality rates in addition to capped profit margins for those that remain (GOK, 2005). This situation is compounded by the fact that there is minimal collaboration between MSEs and large corporations, and indeed the public sector, in the country (Akoten, 2007a). This is evident from the weak sub-contracting arrangements and poor technological learning, which subsequently partly influences the graduation of MSEs into the next phase of the growth cycle (Akoten, 2007a, Anami, 2009). Although the lack of information on market opportunities, local and foreign, government regulations and production technology could be overcome through access to the internet, currently this may be unaffordable to most MSEs in Kenya.

Among the other infrastructure constraints is exposure to occupational health hazards that may affect the expansion and productivity level of an enterprise. Most worksites of Kenyan MSEs are not covered under the appropriate legislation i.e. Factories and Other Places of Work Act-Cap. 514 (GOK, 2005). As a result workers in the sector are subjected to a myriad of occupational hazards e.g. fires, hazardous gases and waste, and bodily injuries caused by equipment and materials used, since most of them do not even wear protective clothing.

2.2.3 Limited access to credit and technical services

Limited access to affordable financial resources is one of the major issues afflicting the growth and development of MSEs in Kenya. Traditionally financial institutions in Kenya, as may be the case in other parts of the world, perceive MSEs as a high risk market (WWB, 2009, GOK, 2005). In the Kenyan context, the perceived riskiness of the MSE sector is made worse by the informality of its operations and often the lack of tangible valuable assets that could be used as loan collateral, yet these are some of the key items in the lending criteria of most commercial banks in Kenya (GOK, 2005). As a

result, the cost of capital is high and most MSEs continue to miss out on access to credit because they are not in a position to change the policy framework to be more responsive to their peculiar circumstances.

The second issue that accounts for lack of access to credit among Kenyan MSEs is lack of appropriate regulatory framework - a fact that was alluded to earlier in this section. Before the enactment of the recent Microfinance Act (2008), credit lending institutions in Kenya operated under several acts; e.g. the Banking Act, Savings and Cooperatives Societies (SACCOS) Act, and the Post Office Act, which allowed minimal flexibility and innovativeness in lending to MSEs (GOK, 2005, GOK, 2006c). Additionally the government does not have an institutionalised mechanism for channelling funds from the mainstream formal financial sector to MSEs, either through MFIs or otherwise (GOK, 2005, Akoten, 2007a). Although the Microfinance Act is a step towards directing more resources to the MSE sector, its implementation will determine the extent to which this goal is achieved. Currently the outreach of MFIs to MSEs, especially in rural Kenya, is highly constrained by their minimal capital base and limited institutional capacity to deliver a wide variety of financial services to their clientele (GOK, 2005). On the contrary however, although the commercial banks have a better resource endowment, they lack the expertise in handling MSE clients because of their highly formalised banking procedures (GOK, 2005).

The second major challenge in this category is lack of adequate access to appropriate technology. Kenya's MSEs often use inappropriate technology because their ability to innovate or adopt modern technology is limited by the scarcity of funds to invest in research and development (GOK, 2005, Akoten, 2007a). This may partly be as a result of lack of access to information as well as low education levels among most of the MSE owner-managers and poor collaboration between stakeholders in the MSE sector. The situation is likely to have severely hampered the productivity and competitiveness of the sector because most of its products could be perceived to be of poor quality compared to imported substitutes.

Thirdly most owner managers of MSEs in Kenya lack 'best-practice' technical knowledge and skills required to run their enterprises (GOK, 2005, WWB, 2009, GOK, 2008). This is because they probably do not have prior technical training or do not have access to technical training on a regular basis. Further, market-based technical training

institutions either lack the expertise and/or are not strategically designed to handle the demands of the MSE sector (Akoten, 2007a). Even where expertise is available, the exchange of information between MSE owner-managers and technical service providers may be either weak or nonexistent.

Fourthly and related to the previous challenge is lack of access to business management skills. This is a major setback in the development of the MSE sector in Kenya given the fact that most entrepreneurs, as may be the case elsewhere, may not have formal business training prior to venturing into business. Although business education is part of the curriculum in the country's education programme, its focus is very basic, generalist and generic (Akoten, 2007a). Additionally most of the consulting firms operating in the country lack competence and/or capacity to train in the range of trades relevant to the MSE sector (GOK, 2005). Notwithstanding, the training fees charged by most of the consultants are out of reach to most MSE owner-managers. As a result therefore most MSE owner-managers are more than likely to consult with their friends and other business colleagues. A partnership launched in October 2009 between Barclays Bank (Kenya) and the Institute of Certified Public Accountants of Kenya (ICPAK) to train the bank's SME clients in financial management (Oyuke, 2009), is further evidence of the lack of management skills among Kenya's MSEs.

The following table, Table 6, reports an extract from the MSE National Baseline Survey of 1999, outlines a summary of the constraints reported by MSE owner-managers sampled in the survey. As already discussed above, the main challenges which were identified then and continue to exist (IFC, 2009b, GOK, 2008) include poor infrastructure and lack of access to markets, credit, and business training.

Table 6: List of constraints faced by MSEs in Kenya (percentage)

	All MSEs	Urban MSEs	Rural MSEs
Lack of access to markets	34.1	61.5	38.5
Lack of credit	18.1	56.3	43.7
Lack of training	9.1	48.0	52.0
Poor roads	7.2	34.4	65.6
Shortage of raw materials	6.3	50.6	49.4
Interference from authorities	6.0	80.8	19.2
Poor security	3.1	60.0	40.2
Lack of worksites	2.5	77.7	22.3
Lack of skilled manpower	0.6	49.55	50.5
Inadequate supply of electricity	0.6	100.0	0
Poor access to reliable water supply	0.5	40.8	59.2
Total	88.1		

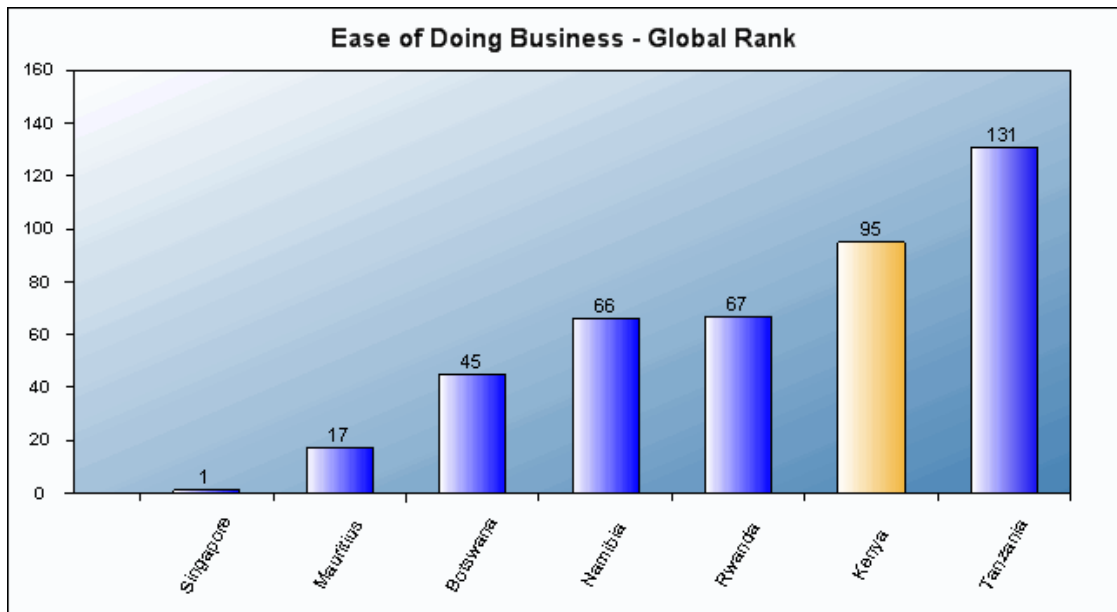
[Adapted from the National MSE Baseline Survey 1999, (Kenya National Bureau of Statistics, 1999, pg, 71)]

In summary the business environment in Kenya is one full of challenges. This is a fact reflected in the most recent global rankings on ease of doing business carried out by the International Finance Corporation (IFC), in which Kenya ranked 95 out of 183 economies (see figure 1 below) (IFC, 2009b).

Overcoming most of the challenges that hinder the growth of the MSE sector in Kenya, discussed above, will require concerted and sustained efforts on the part of the Government. Although attempts have been made, as outlined in its most recent policy initiative, the Vision 2030 (GOK, 2007c, GOK, 2008), this policy guideline arguably largely incorporates earlier policy proposal [including the Poverty Reduction Strategy Paper (PRSP)] hype but with little real action. Against this background, while the future and growth of Kenya's MSE sector depends largely on integrated efforts by the sector's stakeholders, market forces will partly influence the contribution of some of the critical services to Kenya's MSEs, for example access to credit through MFIs, discussed next.

Figure 1: Ease of doing business: a comparison of good practice

between Kenya and selected economies



[Source: International Finance Corporation (IFC), 2009, pg, 2]

2.3 Kenya's Microfinance sector, State and Contribution to MSE Development

This is the second section of the chapter which examines the significance of the MFI industry towards the growth and development of Kenya's MSE sector. The section opens with a brief account of the evolution of the country's financial services sector, with an emphasis on the MFI sub-sector. It then discusses the sub-sector, proceeds to discuss its size and the array of legal frameworks represented by the major institutions operating in the sector. This is followed by a discussion of the nature of services offered by Kenya's MFIs and a detailed account of how the sector's operations have influenced Kenya's MSEs.

2.3.1 Evolution of microfinance in Kenya

In their book entitled 'Indigenising Foreign Seed on African Soil - The Story of K-rep', Fowler and Kinyanjui, (2004) provide a comprehensive account of the evolution of financial services in Kenya. This source informs most of the discussion in this section. The history of the development of microfinance in Kenya dates back to pre-colonial times. This is especially the case if one embraces the fact that 'various communities in Kenya had their credit systems that enabled them to cope with adverse conditions as well as stress from seasonal changes experienced from time to time' (Fowler and Kinyanjui, 2004, pg, 22). These indigenous systems of providing credit services were not only ignored but largely suppressed by the British colonial government under the

pretext that they were peasantry. Nevertheless these traditional systems of social-economic mutual support continue to thrive well into the post- independence Kenya which demonstrates their relevance and resilience (Fowler and Kinyanjui, 2004, Atieno, 2001b).

In the period starting from the late 1950s to late 1970s, credit policies focused mostly on smallholder agriculture and the Africanisation of trade and commerce (Fowler and Kinyanjui, 2004). In order to promote access to agricultural credit the government of Kenya transformed a number of already existing institutions [e.g. Kenya Farmers Association (KFA), Kenya Cooperative Creameries (KCC), and Kenya Coffee Producers Union (KPCU), which exclusively served large-scale white farmers], to extend credit to smallholder African farmers as well. The table below, Table 7, provides a summary of institutions that helped shape the implementation of government policy on improving access to credit in the period preceding Kenya's economic and social-political challenges starting mid 1980s¹².

¹² This is a period when Western allies put pressure for political reforms in Kenya. Notable among was need to introduce multiparty democracy and implement Structural Adjustment Programmes (SAPs) spearheaded by the World Bank. The SAPs required reduction in public spending through privatisation of state corporations, for example the agricultural and commercial credit systems discussed here.

Table 7: Selected list of public institutions established to promote access to credit between 1960s and 1970s

<i>Credit category & Name of Institution</i>	<i>Year Established</i>	<i>Purpose</i>	<i>Achievements and Limitations</i>
<i>Agricultural Credit</i>			
Agriculture Finance Corporation (AFC)	1963	Offer loans to small-scale and large-scale farmers to finance seasonal crops, irrigation, ranching, farm rehabilitation, and land purchase.	- Mission largely realised in the initial years, operations well managed, and clients received technical assistance of professional standards. - Later became unable to collect debt due to political influences - Biased credit delivery to farmers producing dairy and cash crops.
Kenya Tea Development Authority (KTDA)	1964	Provide inputs and extension services in the production, processing and marketing of tea, to smallholder producers.	- Developed smallholder production of tea, becoming a major player in the tea industry accounting for more than a third of tea exports in 1970s. - Farmers' loan repayment was linked to payments for tea already sold by KTDA. - System adopted by other credit institutions targeting small-scale tea producers.
Agriculture Development Corporation (ADC)	1965	Promote development of agriculture through transfer of land to indigenous Kenyans, and provide technical assistance in improving seeds and animal breeds through research.	- Assisted in transfers and rehabilitation of several farms across the country. - ADC programmes eventually run down due to political patronage.
<i>Commercial Credit</i>			
Development Finance Company of Kenya (DFCK)	1963	Promote Africans participation in the industrial sector by investing in industrial and agricultural enterprises.	- DFCK financed public and privately incorporated enterprises but not individuals which led to the establishment of its subsidiary 'Small Enterprises Finance Company- SEFCO' to provide financial and technical assistance to indigenous Kenyan entrepreneurs for expansion and modernisation of existing enterprises. SEFCO extended credit to rural craftsmen and women.

<i>Credit category & Name of Institution</i>	<i>Year Established</i>	<i>Purpose</i>	<i>Achievements and Limitations</i>
			- Programme offered credit based on collateral and required clients to finance part of its project costs.
Kenya Industrial Estates (KIE)	1967	Develop small-scale enterprises by providing industrial sheds, credit, extension services and training.	- As at 1978/79, KIE had 227 projects, distributed an estimated KES. 92 millions (AUD 1.8 million). - KIE failed to target the small-scale sector, instead offered loans with amounts averaging KES 760,000 (AUD 15,200) a pattern which continued well into the 1980s.

[Compiled from various sources; (Fowler and Kinyanjui, 2004, Akoten, 2007b, Kibaara, 2006)].

While the objectives of the credit institutions cited in Table 7 above were noble, the implementation of their programmes may have left a lot to be desired. For example, those involved in offering agricultural credit, besides political interference their programmes structurally discriminated against smallholder farmers because they did not have title to their farmland, or their parcels fell below the required threshold.

Additionally credit from these institutions was biased towards funding cash crop farming, and not trade or food crop production where, incidentally, most women were involved (Fowler and Kinyanjui, 2004). Notably this was a clear policy oversight, a practice that has become characteristic of government initiatives meant to benefit MSEs as previously discussed in section 2.2 above. With regard to the commercial credit institutions the situation was not different either. Firstly, the institutions adopted credit delivery methods that did not distinguish between social and business services.

Secondly, collateral was a key requirement in most loan applications and thirdly, like their counterparts engaged in agricultural credit; access to credit was closely linked to political nepotism (Fowler and Kinyanjui, 2004). As a result of the developments cited above, it could be argued that both agricultural and commercial credit systems failed to deliver credit to those who needed it most, the MSEs.

Aware of the shortcomings of the state run credit programmes some donor agencies¹³, notable among them; GTZ, ILO, SIDA, USAID, UNIDO, and UNDP, set up credit initiatives targeting small scale entrepreneurs in Kenya by the late 1970s. For example through the major commercial banks, the USAID, WWB, the Dag Hammarskjold Foundation, and the IFC among other agencies channelled funds for the development of Kenya's informal sector (Fowler and Kinyanjui, 2004).

“However these efforts through the banks were very limited in their scope, and were entirely dependent on donor assistance. The major local banks were not interested in the informal sector because of the perceived high risks and expenses involved in management of small and medium loans. Their insistence on security for loans made it unfeasible for them to provide financial services to the informal sector ” (Fowler and Kinyanjui, 2004, pg, 33).

Despite the prejudices of commercial banks on lending to MSEs, the role of donor agencies in funding development of Kenya's MSEs, through local and international non-governmental organisations (NGOs) arguably became more pronounced starting late 1980s under the auspices of the then new development orientation, the SAPs. This shift in development agenda was demonstrated by the emergence and increased involvement of several church and civil society NGOs e.g. World Vision, Care International, Kenya Women Finance Trust (KWFT), FAULU- Kenya, Women Enterprise Development (WED), and the National Christian Council of Kenya (NCCCK), in promoting MSE development in Kenya (Fowler and Kinyanjui, 2004). Alongside these institutions were women groups, business associations, community based organisations (CBOs) and various industry based savings and co-operative societies (SACCOs), whose main objective was to promote the social-economic welfare of their members through enterprise development (Atieno, 2001b, Kibaara, 2006). These events, as it were, mark the 'birth' of microfinance in Kenya.

In a summary institutionalising the microfinance concept in Kenya, as may be the case in other developing economies, has had many twists and turns as reflected in the account above. While in principle the concept of microfinance is not foreign to most

¹³ GTZ = German Agency for development Co-operation; IFC = International Finance Corporation; ILO = International Labour Organisation; SIDA = Swedish International Development Cooperation Agency; UNIDO = United Nations Industrial Development Organisation; UNDP = United Nations Development Programme; USAID = United States Agency for International Development; WWB = Women's World Banking.

indigenous Kenyans, it took the convergence of both local and external factors to bring it to the attention of policy makers.

2.3.2 Status of Kenya's Microfinance sector

From the time of independence in 1963, the number of institutions established to offer credit to MSEs has continued to grow. These institutions are set up under different Acts of the Kenyan law and as result possess different legal identities including; state run corporations under respective ministries, NGOs, commercial banks, MFIs, SACCOs, rotating savings and credit associations (ROSCAS), and accumulating savings and credit associations (ASCAs) among others (Akoten, 2007b, Dondo, 2003, Argwings-Kodhek et al., 2004b). Given the proliferation of legislations under which microcredit institutions operate in Kenya it is not currently possible to tell the total number of players in this sector.

However according to the Central bank of Kenya, as at 2008, there were four commercial banks engaged in microfinance business in Kenya namely; Equity Bank, K-REP Bank, Co-operative Bank and the Family Finance Bank. The number is likely to increase over time with the current trend where most mainstream commercial banks are establishing SME banking operations (Akoten, 2007b, Ngugi, 2009). Available statistics show that the Association of Microfinance Institutions (AMFI) has 36 registered member institutions, of these 27 are engaged in retail microfinance lending operations controlling close to 800 branches with an outstanding loan portfolio of KES 4.6 billion (AUD 92 million). As a whole AMFI member institutions constitute an estimated 1.2 million savers and 300,000 borrowers (CBK, 2008). By the end of the year 2007, there were a total of 5,122 registered SACCOs with a membership approximating 3.3 million. The SACCOs had an estimated KES 110 billion (AUD 2.2 billion) outstanding loan portfolio and KES 1.3 billion (AUD 26 million) in shares and deposits. On its own the Postbank (a state run corporation offering microfinance credit) has approximately 1.3 million customers, spread across a network of 80 branches and 395 outlets all over the country, with savings amounting to KES 12 billion (AUD 240 million) (CBK, 2008). In sum by mid of 2008, all institutions engaged in various forms of microfinancing i.e. commercial banks, MFIs, SACCOs, and the Postbank held more than 8 million savings accounts (CBK, 2008). The practical implications of this are reflected on the changes in access to financial services (among population aged more than 18 years) in general as reflected in the following table.

Table 8: Access to financial services among Kenyans (percentage)

Source of financial services	2006	2009
Formal banking institutions (e.g. commercial banks)	18.9	22.6
Formal non-banking institutions (e.g. MFIs and SACCOs)	7.5	17.9
Informal financial service providers (e.g. ASCAs, ROSCAs)	35.2	26.8
Excluded from access to financial services	38.4	32.7

[Compiled from Financial services' access survey (sample based) data, (CBK, 2009, pg, 11)]

The table above shows that in general there is an increase in the use of financial services especially those provided by banks (22.6 per cent for 2009, from 18.9 per cent in 2006) and MFIs (17.9 for 2009, from 7.5 per cent in 2006). Reliance on informal financial services (e.g. ROSCAs) among adult Kenyans appears to be declining standing at 26.8 per cent in 2009 down from 35.2 per cent in 2006. Additionally during this period the unbanked population declined from 38.4 per cent in 2006 to 32.7 per cent in 2009.

With regard to the use of credit facilities, Table 9 below shows that the period between 2006 and 2009 recorded an increase in the population using credit services. For example, in 2009 among the urban population use of credit increased to 41 per cent compared to 30.2 per cent in 2006, while for rural population in Kenya use of credit in 2009 is 36.9 per cent up from 30.8 per cent in 2006. Irrespective of location, the population of those who never had access to credit appears to be declining with 39 per cent and 50 per cent for urban and rural, respectively in 2009, compared to 59.8 per cent and 61.7 for urban and rural, respectively in the year 2006.

Table 9: Access to credit among Kenyan adults

	2006		2009	
	Rural	Urban	Rural	Urban
Currently using a credit product	30.8%	30.2%	36.9%	41%
Never used a credit product	61.7%	59.8%	50%	39%

[Adapted from Financial services' access survey (sample based) data, (CBK, 2009, pg, 15)]

Table 10 below shows the main sources of credit used by Kenyans as reported in the financial services access survey of 2009 include; informal sources e.g. shop owners (24.3 per cent), SACCOs (3 per cent), and banks (2.6 per cent). There is however a

noticeable increase in the proportion of people using MFIs credit services (1.8 per cent for 2009) from 0.8 per cent in 2006.

Table 10: Sources of credit commonly used by Kenyans

Source of credit	2006 (%)	2009 (%)
Commercial banks	1.8	2.6
SACCOs	4.1	3.0
MFIs	0.8	1.8
ASCAs	1.7	1.8
Retail shop owner	22.8	24.3

[Adapted from Financial services' access survey (sample based) data, (CBK, 2009, pg, 15)]

Although the figures on access to financial services reflected above (in Tables 6, 7, and 8) specifically relate to the sample population of adult Kenyans, the situation may not be significantly different for MSEs owner-managers.

2.3.3 Microfinance approaches: influence on MSE development in Kenya

The contribution of the MFI sector to the growth and development of Kenya's MSEs depends largely on the nature of the services offered and the effectiveness of their delivery. Although MSEs may often be perceived as an economic preoccupation of women, this section is not based on such a premise. The service portfolio of MFIs could, to a large extent, be determined by their legal identity and ownership structure, as pointed out in the previous section (see section 2.3.2). Given the fact that MFIs are established primarily in response to increasing demand for credit among MSEs, delivery of credit is still the core product offered by most MFIs in Kenya (Dondo, 2003). Consistent with their diverse legal structures, Atieno (2001b) identifies four major approaches to credit delivery practiced by Kenya's MFIs; namely group-based minimalist credit schemes, the individual lending model, lending to community-based enterprises, and the integrated credit delivery model.

The minimalist¹⁴ model entails MFIs providing credit without any other forms of assistance to borrowers. In this case, credit is offered to individuals within a group set-up (Atieno, 2001b, Dondo, 2003). There are variations of this model of credit delivery

¹⁴ The minimalist approach to credit delivery is modelled on the Bangladesh Grameen bank group lending practice established by the 2006 Nobel Peace Laureate Prof. Muhammad Yunus (Akoten, 2007). In the case of the Grameen bank, lending is mainly restricted to women in groups. In Kenya however there are two variations of this practice in that even though most MFIs lend to women some lend to men, besides, credit is delivered in a group set-up or individually.

whereby individual borrowers may access credit even without being affiliated to a group; however this is an exception rather than the norm. The minimalist group-based lending rests on the premise that lack of access to credit is the main constraint to enterprise growth. As such the model seeks to maximise credit access through extensive outreach to the target clientele. In this approach, social cohesion¹⁵ among group members is used as alternative collateral to the credit advanced, in addition to group savings held with the lending MFI (Atieno, 2001b). Given the fact that the responsibility for selecting potential clients, appraisal, and loan administration is mostly held by group members, it is likely that transaction costs of lending on the part of the MFI are reduced significantly. The minimalist model is notably the main credit delivery approach used by most MFIs in Kenya. This model could be credited for the growth and popularity of MFIs and the increased access to credit among Kenya's MSEs, especially those owned by women both in rural and urban areas. Additionally a number of social benefits, for example, social inclusion and improved political awareness political (Habib, 2008) are associated with the group-based model of credit delivery commonly practiced by MFIs.

There are a several limitations associated with the minimalist model of credit delivery. Firstly, the stringent credit terms used in this model, e.g. frequent group savings, immediate and frequent (usually weekly) loan repayments (Akoten, 2007), leaves little room for borrowers to grow working capital for their businesses. Secondly, it could be argued that the minimalist model in its basic form is discriminating on a gender basis since it is biased towards lending to women. Thirdly, the model has potential to raise social tension amongst dominantly patriarchal communities. Fourthly, the persistent use of a group lending methodology could, over time, dissipate the social cohesion and trust that once existed in the community, owing to pressure directed to members who renege on repayment of their loans.

The second approach to credit delivery is a variation of the minimalist model (discussed above) in which borrowers access credit as individual persons without affiliation to a group. In this approach, access to credit is a privilege of the few entrepreneurs who can

¹⁵ Traditionally women in Kenya carry out their most of their work in a communal mode (groups). Groups are seen as an integral part of the lifestyle of rural women which offers them an opportunity to bond and help each other through life challenges, social or otherwise. For example through groups, rural women in Kenya manage weddings, burials, raise school fees, and undertake farm work, among other activities.

raise some tangible and marketable collateral to secure a loan, in the absence of which borrowers often have to raise guarantors and/or organise chattel mortgages. In Kenya, collateral-based individual lending is practiced mainly by SACCOs, the Postbank, and a few MFIs that have adopted a commercial banking orientation in their delivery of credit services. A few mainstream commercial banks have since 2007 set up SME banking services which to some extent, target MSEs with a much higher growth potential (Akoten, 2007b, Ngugi, 2009) than has been the case in the past. Often the model requires lending institutions to set up multiple branches and agency networks to reach out to as many potential clients as possible. In addition, borrowers must hold an account (mostly savings) with the lending institution, usually in the name of their designated formal business. In this regard commercial banks in Kenya have an advantage over their competitors given their branch network covering key urban centres (Atieno, 2001b). Nevertheless, being pioneers in credit delivery to MSEs, MFIs may pride themselves on having experience and ‘best practice’ skills, notwithstanding their extensive representation in rural Kenya where approximately 78 per cent of MSEs are found (Atieno, 2001b).

Although the freedom permitted by the individual borrowing associated with the above model may be highly welcome by MSE owner-managers in Kenya, the demand for tangible collateral may be a major setback to a significant proportion of them with regard to accessing credit. In the first place it is the demand for collateral that alienates MSEs from bank credit (see discussion in section 2.3.1 above).

The third approach to credit delivery is the community-based enterprise model. In this approach credit is offered to those MSEs which are designated as being wholly owned and managed by community groups. In Kenya, this approach to credit delivery is practised mainly by ROSCAs and ASCAs, run by for example NGOs, Community based Organisations (CBOs), and women’s self help groups (SHGs). The model has several variations (Kibaara, 2006) but the most notable is financial services associations (FSAs), otherwise known as village banks. Village banks are established by registered CBOs and SHGs whose members come from the same local community. A minimum of 300 shareholders are required to set up a village bank and all members are required to hold at least one share valued at between KES 300 to 400 (AUD 5 to 8), as at 2005. The bank is regulated by an elected board of eight members and a donor agency (usually an NGO), which provides institutional support in the form of staff training and in some

cases insurance services. Besides various loan products, shareholders in a village bank have access to a range of other services including; savings, a fixed deposit facility, transfers of money, and custodial services.

With their extensive national network it is likely that village banks have been instrumental in mobilising savings and improving chances of access to credit among the rural population in Kenya. Data is scanty, but as at 2005 village banks in Kenya had more than 58,897 shareholders with an estimated KES 1.4 billion (AUD 28 million) in savings, outstanding loans amounting to KES 524 million (AUD 10.5 million) and a share capital of KES 82 million¹⁶ (AUD 1.64 million). Among the major limitations of the community-based credit model is high administrative costs given the multiple parties involved to make it operational. The model has been criticised also for delivering low returns to its community members despite registering high returns to the respective community groups (Kibaara, 2006).

The fourth model is the integrated credit model in which credit delivery is accompanied by some form of training and/or technical assistance to clients. In this model, unlike the first and third models discussed above, access to credit is on an individual basis rather than group-based. Although tangible collateral is not required of the borrowers, to mitigate against the possible risk of default, lending institutions require at least one guarantor to guarantee the loan – a consigner. In Kenya the integrated model of credit delivery, especially the aspect of training, was the original model practised by most MFIs, especially those owned by NGOs and churches pursuing a poverty alleviation mission.

The push for financial sustainability that has engulfed donor funded MFIs since late 1990s (Morduch, 2000, Morduch, 1999) could be responsible in part for the shift in operational mechanisms adopted by MFIs around the world, including in Kenya. Currently only a few MFIs run the integrated model, and even then it could be argued that their technical assistance and training services have been significantly scaled down due to transaction cost pressures. This is evident from the results of a survey conducted by the Kenya Institute of Public Policy Research and Analysis (KIPPRA) in 2004 (Akoten, 2007b), where out of 123 donor funded MSE support programmes in Kenya,

¹⁶ These figures relate to village banks associated with a leading village bank's support network in Kenya, the K-rep development agency.

only 22 per cent provided training and financial services compared to 54 per cent which focused on microcredit services only, while the rest were involved in infrastructure development (11.5 per cent), information and technology (6.9 per cent) and MSE policy development (5.4 per cent).

Although the inclusion of training and technical assistance to credit delivery may in the short term appear to increase the cost of accessing credit among MSEs, compared to the other three models, the integrated credit delivery model arguably may improve the performance of clients' enterprises in the long run. This is because most entrepreneurs in Kenya, as noted previously (see section 2.2.3), enter into business without adequate, if any, business management training. Therefore access to training is likely to improve their entrepreneurial and management skills. These factors coupled with competitive pressure from the 'credit only' models, necessitate the development of an appropriate policy and regulatory framework to govern the MFI sector in Kenya within the PRSP policy framework.

Given the structural and operational differences reflected in credit delivery models discussed above, the MFI sector in Kenya, as is the case in other countries within the Sub-Saharan region, is divided between formal and informal segments whose operations are independent of each other (Atieno, 2001b). According to Atieno (2001) the apparent fragmentation of the financial services sector, including MFIs, in Africa could be explained by either policy or institutional factors. With regard to policy on financial services, fragmentation results from inappropriate policies which lead to preferred clients accessing credit at competitive rates from regulated formal 'oligopoly type' markets, while others source credit at high interest rates from uncompetitive informal 'monopolistic type' markets. Often in such a scenario, excess demand for funds is culled through alternative criteria e.g. risk assessment rather than by interest rates. This leads to emergence of unregulated informal money markets with uncontrolled interest rates.

An alternative explanation to fragmentation is provided from an institutional perspective, in that;

“imperfect information on creditworthiness, as well as cost of screening, monitoring and contract enforcement among lenders, results in market failure due to adverse selection and moral hazard, which undermines the operation of financial markets. As a result, lenders may resort to credit rationing in the face

of excess demand, thus establishing equilibrium even in the absence of interest rate ceilings and direct allocations. Market segmentation then results. Market segments that are avoided by the formal institutions due to institutional and structural factors are served by informal agents who use personal relationships, social sanctions and collateral substitutes to ensure repayment. An extended view of this explanation is that structural barriers result in monopoly power, which perpetuates segmentation” (Atieno, 2001b,pg, 8).

While both factors may help explain the situation in Kenya’s MFI sector, it is mostly policy inadequacies that are responsible for the fragmentation.

Fragmentation of the MFI sector in Kenya, coupled with increased demand for credit among MSEs, has seen an increase in informal players in the sector. This is made worse by the lack of a clear policy on MSE development which could guide and regulate the sector’s operations. As it is, operations of the MFI sector in Kenya are largely uncoordinated, which further promotes informality. Some of the most likely consequences of such an environment are; duplication of efforts, lack of innovation in service delivery, gaps in meeting the demand for credit¹⁷ and training, and ‘criminal’¹⁸ like activity. As noted earlier in this section, short-term credit is the only main product offered by most MFIs operating in Kenya. Although there is a significant number of SACCOs and ASCAs providing savings opportunities, training/technical support, insurance, micropensions, and microleasing services and other microfinance-related services are either totally lacking or offered on a limited scale.

2.3.4 Kenya’s microfinance legislation

As part of an effort to minimise fragmentation and improve on the formality of operations in Kenya’s MFI sector, the Government enacted the *Microfinance Act* (hereafter the Act) which came in force in May 2008 (CBK, 2008). The Act seeks to regulate both deposit-taking and non deposit-taking MFIs in Kenya with a view to enhancing orderly growth, stability and efficiency in microfinance operations (CBK, 2008, GOK, 2006c). Following this development, MFIs that choose to transform and apply to be licensed under the Act are expected to draw several benefits including; increased access to additional sources of loanable funds, ability to offer a diverse set of

¹⁷ According to the 2009 Financial Services Access Survey reported by the Central Bank of Kenya, nearly one third (32.7%) of Kenyans aged above 18 years do not have access to credit (CBK, 2009).

¹⁸ The absence of a specific Act to regulate the operations of MFIs in Kenya was blamed for plunging the sector into chaos after the massive collapse of numerous deposit-taking outfits (ponzi schemes disguised as MFIs) in 2007 (CBK, 2007; Ombati, 2007).

financial products, and enhanced corporate governance through improved internal controls, among others (CBK, 2008).

Notwithstanding the benefits noted above, the Act comes with a number of limitations. Firstly, according to section 3(3) of the Act; banks, building societies, and the Post Office Bank of Kenya are not subject to it (GOK, 2006c). Perhaps in the government's view these are adequately covered by their respective Acts of Kenyan law. However their exemption provides potential for unfair competition given the fact some of them are already engaged in microfinancing activities anyway. As discussed previously in this chapter (see sections 2.3.1 and 2.3.2) some banks and indeed the Post Bank engage in microfinance activities. Secondly, the Act [section 4(1)] stipulates that MFIs can be legally established only under three options; namely limited company, wholly-owned bank subsidiary, and as MFIs (GOK, 2006c). Although the diverse legal frameworks under which MFIs currently operate arguably should not be encouraged, limiting to three options appears to be overly restrictive. For example the Act precludes MFIs that are operating as SACCOs, NGOs, CBOs, Church based programmes, and Trusts mostly engaged in wholesale microfinance. If these institutions are to continue undertaking microfinance activities, including taking deposits, they are expected to transform into an 'appropriate legal form' which arguably could lead to unnecessary and costly structural reorganisations with potential for conflict of interest and loss of focus.

Thirdly, section 14(1) of the Act (GOK, 2006c) states that MFIs are not permitted to offer the following products; issue third party cheques, operate current accounts, facilitate foreign trade operations, undertake trust operations, and underwrite securities. These provisions seem to contradict the potential to diversify financial products (stated above) and, as such, arguably leave MFIs with little flexibility for much desired product innovation. Fourthly, within the Act the Minister appears to have excessive powers in regulating the affairs of the MFI sector in the country. For example, the Minister is responsible not only for prescribing the categories of MFI activity¹⁹ (section 7 of the Act), an issue that goes to the heart of the entire Act, but also amending the minimum

¹⁹ In exercising his duties under the *Microfinance Act* 2008, the Minister published the 'Microfinance (Categorization of Deposit-taking Microfinance Institutions) Regulations', 2008 that sought to clarify what constitutes deposit-taking MFIs by creating two categories i.e. national and community MFIs (www.kenyalaw.org). Whereas national MFIs have branches spread across the country, community MFIs have a network operating in one administrative division in a city or district. This classification arguably grossly misclassifies MFIs operating in communities across more than one district.

capital²⁰ required to run an MFI; an action with a direct effect on liabilities applicable to an MFI.

Fifthly, the Act [section 16. (2)] provides that a person seeking a loan should provide evidence of ability to repay, yet section 17(2) prohibits MFIs from using client deposits and/ or shares as loan security. This provision has two implications, firstly in order to access credit MFI clients will need to raise tangible collateral, which essentially goes against the vision of microfinancing. Secondly, it appears MFIs are likely to have increased access to loanable funds from accumulated client savings, but that their clients will not benefit from their own savings. This is likely to be the case for MFIs operating as SACCOs, ROSCAs, and ASCAs; which rely mainly on clients' savings and shares as alternative collateral for loans.

Although the purpose of the Act is to regulate and improve on the coordination of MFI activities in Kenya, its current provisions on legal identity for MFIs appear to favour deposit-taking credit only MFIs with a commercial orientation and not other forms of microfinance. Perhaps the limitations discussed here could be part of the reasons why there has been a slow uptake on licensing applications as required under the act. As at October 2008, five months after the act came into force²¹, only two MFIs had applied for licensing with the CBK (Ondari, 2008). In addition the AMFI has not only petitioned the minister to be accorded regulatory rights, in the spirit of promoting self-regulation within the microfinance industry, but also raised concerns about the plight of those MFIs which fail to meet the stringent requirements of the act (Ondari, 2008). In this regard, unless the Act is revised appropriately, the future of MFIs operating on the integrated credit delivery model, for example NGOs and Church programmes with a poverty alleviation objective, appears bleak.

From the foregoing it is clear that Kenya's MFI industry, as a pillar towards promoting growth and development of MSEs, has come a long way. Although the number of institutions offering microfinance services has increased over the years, this appears not

²⁰ At the time of writing, as per the 'Minimum capital requirements' Schedule of the *Microfinance Act* 2008 part (d), Kenya's MFIs are required to hold KES 60 million (AUD 1.2 million) as core capital (GOK, R. O. K. (2006c) The Microfinance Act. *Kenya gazette supplement no.*, 103.. This figure is 24% and 30% of the core capital levied on Kenyan financial institutions and banks, respectively.

²¹ This leaves MFIs that wish to be licensed as deposit-taking financial institutions, under the act, barely seven months before expiry of the twelve months' transition period provided under the new legislation Ibid..

to have been matched by an expansion in the service portfolio in line with the diverse needs of MSEs. Notwithstanding this, access to microfinance services among Kenya's MSEs, for example, affordable credit and training, is arguably undermined by the lack of an appropriate and effective policy framework for both the MSE and MFI sectors alike. From an empirical perspective, although access to credit among Kenya's MSEs has been studied [for example, (Akoten, 2007b, CBK, 2009, Atieno, 2001b)], assessment of the contribution of BDS provision to MSE development in Kenya is scant. This study seeks to assess whether MSE owner-managers with access to BDS enjoined with microcredit, experience significant improvement in the performance of their enterprises. The next section examines this issue from a broader perspective.

2.4 Review of Related Literature

As a research subject, development of either micro, small or medium enterprises (MSEs/SMEs) has attracted a number of scholars with development often being operationalised in terms of growth or performance (see Martina Battisti et al., 2010, Gibb, 2006b, Berry and Sweeting, 2006, Masakure et al., 2009, Storey, 2004, Sievers and Vandenberg, 2007). Some of the studies in this field have been undertaken in the context of Organisation for Economic Co-operation and Development (OECD) member countries, for example, USA, UK, and Japan (Storey, 2004). At a regional level however, most studies on SME development are carried out within the EU (for example, see Berry and Sweeting, 2006, Eikebrokk and Olsen, 2009, Jayawarna et al., 2007). Outside the OECD group of countries, a few studies have been undertaken in China and south east Asia (for example, Chi et al., 2008, Gibb, 2006b, King-Kauanui et al., 2006) and, of particular relevance to this thesis, within the Sub-Saharan Africa region (see Masakure et al., 2009, Oyelaran-Oyeyinka and Lal, 2006, Rogerson, 2001).

Across regions, the focus of studies on MSE development through training or education of owner-managers is varied. For example, within the developed economies especially the EU, initially studies sought to assess either the attitude of SME owner-managers towards entrepreneurship training (Faoite et al., 2004) or evaluate its take-up (Matlay, 2004, Boter, 2005). Using a sample of 54 SME owner-managers, Faoite et al, (2004) use interviews to compare training experiences of Irish and Dutch entrepreneurs and find differences in training source preferences. Although no results of statistical tests are availed, the authors claim that generally Irish entrepreneurs prefer formal sources of entrepreneurial support usually in the form of training, incubation services and funding

whereas their Dutch counterparts are inclined towards the less formal modes of SME facilitation, for example mentoring and networking.

In a closely related study, and with a significantly larger sample (6,000 SMEs), Matlay (2004) combines telephone and in-depth interview techniques to evaluate the impact of six voluntary industry training organisations. In this study the author concludes that there is low awareness and that few SME owner-managers show interest in the training provided by these organisations. In particular, the usage rate of training across micro, small and medium-sized businesses was below 15 per cent. On the basis of these results, the author argues that there could be a mismatch between the type of training on offer and SME owner-managers' training needs (Matlay, 2004). Similar findings emerge from a study conducted among Swedish SMEs (Boter, 2005). Unlike the previous two studies discussed, which are highly descriptive in nature, Boter (2005) uses a logistic regression algorithm to bring out the influence of contextual factors, for example size and industry type, on the significance of training to SMEs. These contextual factors appear to be important mediating factors in assessing the relationship between training; defined simply as the process of bringing an employee to an expected level of competence (O'Regan et al., 2010, pg. 172); and MSE performance (see Eikebrokk and Olsen, 2009, Jayawarna et al., 2007).

From a theoretical perspective, Storey (2004) offers two explanations for the possible low take-up of training among SMEs. The first is 'ignorance' in that SME owner managers are thought to underestimate the benefits of training to their businesses. In this regard governments try to persuade entrepreneurs to increase their participation in training programmes by claiming that increased management training is likely to improve the performance of their enterprises (Storey, 2004). The second explanation is based on the 'market' phenomenon. In this case, Storey (2004) argues that in comparison to large firms, the cost to benefit ratio of training appears unfavourable to SMEs. Therefore, against this premise it should not be a surprise that SME owner-managers appear to minimise their involvement in training activities. The results of this study are likely to provide further evidence on the cost and possible benefits of training to MSE owner-managers.

On the part of developing countries, the focus of MSE development research is equally varied. While some scholars have sought to explore factors that shape or influence the

development and productivity of MSEs (Roy and Wheeler, 2006, Rogerson, 2001, Akoten, 2007a), others assess training programmes, training markets and transfer of skills (Suzuki, 2002, Hallberg, 2006, Lepenies, 2004, Mukulu, 2004), and yet others examine collective learning and adoption of new technology (Oyelaran-Oyeyinka and Lal, 2006). In particular Hallberg (2006) carried out an *ex post* evaluation survey with more than 300 training providers and MSE trainees taking part in the Kenya Voucher Training Programme, funded by the World Bank. Although the author claims to have found positive impact on participating MSEs, no details are provided pertaining to the specific impact measures and the evaluation techniques employed. Similarly based on qualitative interviews with 13 participants representing government officials, trainers, and trainee MSE owner-managers involved in chemical processing in Kenya, Mukulu (2004) concludes that, to a great extent, trainees transferred skills to their enterprises. However the author reports limited transfer of training from MSE owner-managers to their employees and attributes this to the fear of loss of staff once trained.

In a narrower sense however some seek to evaluate the impact of human resources management practices on SME performance (King-Kauanui et al., 2006), the link between firm's resources and its performance (Masakure et al., 2009), and the impact of entrepreneurial characteristics on MSE performance (Adegbite et al., 2007). The results of most of studies in the latter category (targeting MSE performance), conducted within developing economies, appear to portray a mixed picture as do studies conducted elsewhere. For example, King-Kauanui et al., (2006) assess the impact of various human resources practices, i.e. training, performance appraisal and incentive-based compensation, on performance among some 200 manufacturing SMEs in Vietnam. The authors claim to find evidence that all the three aspects have a positive effect on performance. On the contrary Masakure et al., (2009) do not find any positive association between apprenticeship completion and the performance of manufacturing MSEs in Ghana. According to Masakure et al., (2009) it appears that the performance of MSEs, particularly in terms of profitability, is influenced mainly by characteristics of the owner-manager, attributes of the enterprise, its location and the specific sector where domiciled. As later discussed in chapter four, most of the control variables used in this study are consistent with the observations above.

2.4.1 Evaluating BDS and MSE performance relationship

Recent studies (from 2006) on the BDS-MSE performance relationship subject appear directed towards substantiating the assumed relationship between access to business development services (or simply training) and SME performance (see Berry and Sweeting, 2006, Jayawarna et al., 2007, Chi et al., 2008, Eikebrokk and Olsen, 2009). Notwithstanding their atheoretical nature, results of most of these studies are equivocal (Storey, 2004). While some authors (for example, Berry and Sweeting, 2006, Jayawarna et al., 2007) claim to find a positive relationship between take-up of training and SME performance (in terms of turnover growth), others (see Chaston, 2008, Chi et al., 2008, Wood, 2006) hold a contrary view.

For their part Berry and Sweeting (2006), while assessing the effect of business advisers on the performance of SMEs, conducted face-to-face interviews with 140 SME owner-managers in Manchester city in the UK. The findings reported in this study indicate that in general there is an association between access to business advice and SME turnover growth. In particular the authors conclude that in instances where SME owner-managers use a range of business advice they experience higher levels of growth. Although the conclusion in this study implies the possible existence of a causal relationship between use of business advice and SME growth in turnover, the specific direction of influence is not ascertained. It could be argued that SMEs that experience high growth are more likely to demand business advice than otherwise. In effect it appears that there could be potential for a spurious relationship between use of business advice and SME growth. In addition although Jayawarna et al.,(2007) similarly report a positive association between training commitment and performance, especially among SMEs engaged in manufacturing, they caution that such an association is only significant on account of formal training unlike either informal or more generic training solutions.

Indeed within the SME development literature it appears that the nature of training and its access mode is in itself a subject of concern. While some studies assess the institutional aspects of entrepreneurship training in general (see Pittaway and Hannon, 2008, Schmidt and Kolodinsky, 2007, Cook and Belliveau, 2004b), others examine training as a subset of a wider practice of human resources management (see O'Regan et al., 2010, King-Kauanui et al., 2006, Kotey and Sheridan, 2004) or organisational learning (see for example, Michna, 2009). Although the common finding among these

studies is that access to training is associated with improved business performance, there is emphasis that different training models may be valuable in different contexts (Pittaway and Hannon, 2008). This could imply that the effect of standardised formal management training on SME performance may be minimal given the diverse nature of SME activity (Matlay, 2004, Kotey and Sheridan, 2004).

Specific aspects of entrepreneurship training, for example, intensity, mode of delivery, and its relationship to skills competence, have been studied also (see Jayawarna et al., 2007, Eikebrokk and Olsen, 2009). Authors Jayawarna et al.,(2007) conclude that formal training, unlike informal training, being a targeted activity is likely to make a significant contribution to SME performance, in terms of average turnover, among manufacturing SMEs in the UK. This claim may however not hold much given the fact that in this study the effect of training intensity and turnover (used to measure performance) is not statistically significant, although the authors report that the pattern of results is in the predicted direction.

Similarly, Eikebrokk and Olsen (2009) report a positive relationship between training, competence, and performance among SMEs involved in e-business activities. This study used a sample of 339 SMEs drawn from three European countries, Norway, Finland and Spain. Based on their empirical analyses, the authors claim that “training explains variances in e-business competences and performance in terms of efficiency, complementarities, lock-in and novelty” (Eikebrokk and Olsen, 2009, pg, 92). Clearly although the authors of this study had intended to link training, competence on the one hand, and SME performance on the other; it appears they ended up assessing the ‘means’ rather than the end itself. It could be argued that the link between their measures, efficiency, complementarities, lock-in and novelty, as surrogates of SME performance is not apparent.

Defined in various ways, performance, the extent to which objectives set by business managers are met (O’Regan et al., 2010,pg, 169), appears to attract some specification challenges especially when it is used as a dependent variable in SME development research. As a result some researchers resort to simplistic use of single measures of performance, for example, total sales (Chi et al., 2008), growth in turnover or firm size (Jayawarna et al., 2007, Berry and Sweeting, 2006, Kotey and Sheridan, 2004), and profit or profitability index (see Michna, 2009, Masakure et al., 2009). It is likely that

among SME owner-managers financial measures are often seen as indicators of better performance or success in business. Consequently it is not surprising that financial indicators of performance are used commonly in development studies. This is especially so for those seeking to attribute SME performance to either operational or contextual factors (see O'Regan et al., 2010, Michna, 2009, Masakure et al., 2009).

The intuitive use of financial performance measures notwithstanding, entrepreneurs are quick to point out that other motives, for example, survival and status, are equally if not more important drivers of their involvement in business (Wood, 2006). It would appear that such revelations partly may be responsible for the ongoing call among researchers to combine financial and non-financial indicators when measuring SME performance (O'Regan et al., 2010, Wood, 2006, Murphy et al., 1996). Indeed in a review article on 'measuring performance in entrepreneurship research' Murphy et al.(1996) finds that empirical studies with an aspect of small business performance (between 1987-1993) used as many as 71 measures which could be argued to fall into eight dimensions of performance including; efficiency, growth, profit, size, liquidity, success/failure, market share, and leverage. Consequently the authors argue that use of diverse performance measures in SME studies, and inconclusiveness of results, could be due to a lack of validity of the performance construct. However, although the level of performance specification may depend on the context of a particular study, Murphy, Trailer et al. (1996) recommend that researchers in the SME field need to use multiple dimensions (financial and operational) and multiple measures within each dimension to improve on performance validity. Similarly O'Regan et al., (2010) encourages use of a combined regime of performance measures, especially in cognisance of the fact that small businesses are modelled differently in different contexts (Wood, 2006), although they may appear similar. It is worth noting that in this study (as explained later in chapter four) multiple measures of MSE performance, the key dependent variable, are employed to create a single composite measure. Therefore the methodology for this study takes account of previous criticism of single performance measures (Murphy 1996; O'Regan 2010) and hence its results are likely to be robust.

The common pattern of findings among studies that employ a single measure of performance points to the notion that access to training among SME owner-managers is associated closely with improved performance, in terms of profitability or turnover growth (Michna, 2009, Jayawarna et al., 2007, Berry and Sweeting, 2006). Nevertheless

there is little consensus in the results among studies that use more than one measure of performance. For example, while Eikebrokk and Olsen (2009) and King-Kauanui et al (2006) conclude that training has a significant positive effect on the performance of e-business and manufacturing SMEs respectively, on the contrary Wood (2006) concludes that, in the short run, investment in training is unlikely to improve performance among SMEs in the events sector in the UK. Given the fact that most of the studies in the latter category, not only employ multiple performance measures, but also adopt sophisticated quantitative modelling techniques, it would appear that contextual factors wield significant influence on the findings. This implies that, as Masakure et al., (2009) notes, factors embodied in the microenterprise, its target market and the specific sector/industry where it operates, determine the extent to which training influences SME performance.

In summary therefore it appears that context matters. It is important to note that most of the studies reviewed here are conducted within OECD member countries, particularly the UK, and examine small and medium enterprises, defined by the EU commission as firms employing between 10 and 250 employees (Official Journal of the European Union, 2003). In most of the studies therefore microenterprises, those employing less than ten employees, are excluded. Various entrepreneurship scholars have emphasised that firm size matters (see Boter, 2005, Murphy et al., 1996). It could be argued that by the time an enterprise acquires fifty or more staff, it possibly already has established a formal administrative infrastructure to facilitate management. For enterprises with less than ten staff (microenterprises), their management systems are unlikely to be sophisticated and careful execution of the controlling role by the owner-manager may suffice. This thesis extends the training/MSE performance literature by examining owner-managers' perceptions of the effect of inclusion of business development services within microcredit provision on the performance of their micro and small enterprises, in the context of a developing country.

2.5 Conclusion

In this chapter the characteristics and dynamics that have marked the development of both the MSE and MFI sectors in Kenya are discussed. The chapter notes that most Kenyan MSEs are relatively small, employ less than ten workers, and engage in trade. Despite being a significant source of employment to Kenyans in both urban and rural areas, growth and development of the MSE sector is hampered by several factors, for

example, lack of appropriate and effective policy, poor infrastructure, and lack of access to affordable credit and training/technical services. With regard to Kenya's MFI sector, the chapter observes that the concept of microfinance has been informally practised since time immemorial. Efforts to promote microfinance operations in Kenya, led by the government and NGOs, have seen an increase in the number of players since the 1990s and, as a result, access to credit among Kenyan adults, including MSE owner-managers, has improved. However, lack of an appropriate policy for both MSE and MFI sectors appears to limit innovation in the design and delivery of microfinance services in Kenya. Most Kenyan MFIs offer credit through a minimalist approach and few practice the integrated model of microfinance, although the latter is arguably better in prompting MSEs' development. A review of literature on BDS and MSE performance reflects equivocal conclusions. With most of the studies atheoretical and undertaken in the context of developed countries, the results of this study, which is carried out among MSEs owner-managers' in a developing country, are likely to make a significant contribution to literature. A discussion on the theoretical underpinnings and hypotheses behind the study follows next.

3.0 Chapter Three: Theoretical Framework and Hypothesis Development

3.1 Introduction

“Microcredit looks like a miracle. It involves providing unsecured small loans to poor people in developing countries whom most banks would turn away. Yet these small borrowers almost always repay their loans (and the fairly steep interest charges) on time, which suggests that they find productive uses for the money. The industry's backers make some big claims as a result: Mohammad Yunus, the founder of Grameen Bank in Bangladesh and the father of microfinance, reckons that 5 % of Grameen Bank's clients exit poverty each year. Yet economists point out that there are surprisingly few credible estimates of the extent to which microcredit actually reduces poverty. This would not matter too much if all microfinance funding were raised via the market (as an increasing proportion is). As long as investors were satisfied with their returns, there would be no cause for concern. Yet despite growing interest from private investors, 53 % of the \$11.7 billion that was committed to the microfinance industry in 2008 still came at below-market rates from aid agencies, multilateral banks and other donors. Given that there are other things that aid money could be spent on, and that the rationale for subsidising microcredit is its effectiveness as an anti-poverty tool, it is important for donors to know whether it has the advertised effects (The Economist, 2009, pg. 76).”

As alluded to in the previous two chapters, starting from the mid eighties the concept of microfinance, the main context of this study, was conceived as a response mechanism to the poverty situation afflicting millions of people around the world. So remarkable has been the success of microfinance that 2005 was declared the year of microcredit by the general assembly of the United Nations. The declaration called for the establishment of all-inclusive financial markets and strengthening of the often unrecognised deposit of entrepreneurial spirit by providing financial and business support services to poor communities around the world. In the year 2007, more than 100 million poor families received a microloan, marking the attainment of a decade old benchmark set by the Microcredit Summit in Washington, DC in 1997 (Daley-Harris, 2009). The commitment to support microfinancing has been virtually without question. As the world was grinding slowly into a global financial crisis in 2008, donors committed \$11.7 billion to the course of microfinancing (The Economist, 2009).

To date, microfinancing can be associated with dynamism and innovativeness as reflected in its application in various countries, especially in the developing world. The phenomenon of microfinance is however complex, a feature that is often reflected in its

economic as well as socio-cultural dimensions wherever it is implemented. Further, results of research into the impact of microfinancing on poverty have been mixed. Whereas commissioned programme evaluators suggest that microfinancing is having a substantive positive impact on poverty (e.g. Pitt and Khandker, 1998, Robinson, 2001, Snodgrass and Sebstad, 2002), a contrary view tends to be held by independent analysts, especially economists and academics (e.g. Edward and Olsen, 2006, Morduch, 2000, Schmidt, 2010). Some academics claim that the extent to which microfinance institutions (MFIs) can enable poor people to exit poverty sustainably is not yet established (Gibb, 2006b).

As indicated in chapter two, so far most studies on microfinance have been predominantly atheoretical with emphasis on assessing its impact and outcomes using surveys, interviews and to a lesser extent econometric modelling. With the exception of a few studies there has been limited application of theoretical conceptions to research on the microfinance phenomenon. Dorado-Banacloche (2000) who employs a social entrepreneurship view to explain the emergence of microfinancing in Bolivia, Khandakar and Constantine (2004a) who look into motives for and means of MFIs using an infant industry and social consciousness driven capitalism view, and Mayoux (2000) who develops a taxonomy of microfinance practice are exceptions. This limited theoretical underpinning is particularly the case when it comes to understanding variation in the practice of microfinance. This lack of theoretical conceptualisation may arguably be part of the reason for the ambiguity in the results of microfinancing studies, especially those focusing on effects of microfinance programmes, and in particular of business development services (BDS) on MSE development, as seen in chapter two.

This chapter of the thesis makes an attempt to overcome the previously predominantly atheoretical nature of research surrounding microfinance and microfinance models, including those that encompass concurrent BDS. The chapter puts forward a critical theoretical conception to explain the practice variation that is observed and through which to interpret findings. In particular, the chapter employs a relational framework informed by Pierre Bourdieu's conception of 'a theory of practice' (1977) in addition to the closely related neo-institutional theory (e.g. Wry, 2009, Özen and Küskü, 2009, Lounsbury and Crumley, 2007b). These two theories are being applied increasingly in business practice research (see Özen and Küskü, 2009, Everett, 2002, Benson, 2006, Lounsbury and Crumley, 2007b, Emirbayer and Johnson, 2008). In so doing, this study

contributes to microfinance literature not only by demonstrating the universality of Bourdieu's views and their complementary value to neo-institutional theory, but also more importantly by helping to outline the pressures behind the variations in microfinance programmes which seemingly have led to an apparent lack of consensus on 'best practice' in microfinancing and criticisms of its so-called 'mission drift' (e.g. Christen, 2000).

Following this introduction is an overview of the two theoretical pillars put forward as a conceptual underpinning for microfinance practice, i.e. neo-institutional theory and Bourdieusian views. Next is an explanation of the evolution and state of microfinance practice as a social structure, the operations of which appear to be guided largely by a relational scheme. In particular the section applies the proposed theoretical concepts to discuss the emergence of practice variation, and the logics that inform delivery of both microcredit and BDS as embedded in various microfinance practices. The following section then examines the position-taking behaviour of those involved in the microfinance 'industry' and the regulatory challenges facing governments and microfinancing, and poses the hypotheses tested in this study.

3.2 Theoretical Framework: an Overview

This section begins the formulation of a theoretical framework by discussing Bourdieusian and neo-institutional perspectives on social relations in order to set the scene for later explanation of the dynamics of microfinance practice. Specifically the two views are explored in order to explain how social structures (institutions) come into being, acquire stature and meaning, and direct activity in society. The section starts with neo-institutionalism and later turns to Bourdieu's theory.

3.2.1 Neo-institutional theory

Scott (1987) points out that organisations are technical mechanisms devised to attain set goals. If organisations seek to transform into institutions²² they probably need to choose how they interact and adapt to forces within their operating environment. In so doing they acquire a more organic character, which may often propel them to seek meaning and legitimacy in the societies in which they operate. Institutionalisation therefore is the

²² "Institutions are comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life" (Scott, 2008; pg. 48).

process of instilling value and intrinsic worth to a structure (organisation) which possesses initially only technical utility (Scott, 1987, Scott, 2008).

Institutional theory has evolved as a systematic synthesis of concepts aimed at explaining not only how organisational structures and processes become institutionalised over time, but also how they earn legitimacy from society (e.g Scott, 2008, Oliver, 1997, Lounsbury, 2007a, DiMaggio and Powell, 1983). Conceptually the theory has two leading versions; old institutionalism, known popularly as isomorphism, and new institutionalism named neo-institutionalism. In its extant view, institutional theory sought primarily to examine how external social and economic pressures influence an organisation's structures, policies and systems (Powell and DiMaggio, 1991, Scott, 2008, Khadaroo, 2005). Specifically the older conception of institutional theory focused on explaining apparent isomorphism in the structure, culture, and organisational output among organisations in a field (Kondra and Hurst, 2009, DiMaggio and Powell, 1983). In their classical work, DiMaggio and Powell (1983) describe three mechanisms through which structural isomorphism in organisations can be explained; namely coercive isomorphism, mimetic processes, and normative pressures.

Coercive isomorphism relates to “..formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which the organisations function” (DiMaggio and Powell, 1983; pg. 150). Although coercive forces may be applied upon organisations in either a direct or indirect way, their primary purpose is to prescribe acceptable behaviour (Kondra and Hurst, 2009). For example, whereas stakeholders (e.g. donors and shareholders) expect microfinance institutions (MFIs) to design programmes aligned to their ideologies, the community of poor, to which microfinancing is targeted, expects programmes to serve their needs. Mimetic pressures derive from uncertainty in the operating environment. When the future seems turbulent and goals appear vague, organisations tend to model their systems along those of other organisations they regard as successful in their field. By doing so, organisations hope to increase the certainty of outcomes of their operations while avoiding the risk associated with the process of innovation (DiMaggio and Powell, 1983; Kondra and Hurst, 2009). For example, since the setting up of the group-based lending mechanism in Bangladesh by the popular Grameen bank, in the 1980s, other microfinance institutions that have followed often

have designed their own microcredit programmes along this model. Similarly the minimalist approach followed by some leading MFIs seeking financial sustainability (see discussion in chapter two section 2.3.3) appears to have attracted a significant contingent of MFIs faced with dwindling donor funds.

According to DiMaggio and Powell (1983), normative pressure is the third mechanism through which organisational structures in a field become homologous. Normative pressures are associated with professionalisation. In this regard organisations will tend to adopt structures and systems that are highly similar as a reflection of some shared ideology, e.g. membership of an industry association bound by a common ethos. In addition common professional training of management staff across a field may lead to largely shared cognitive positions which may, in turn, lead to structural isomorphism among organisations. For example firms in the same industry tend to adopt similar administrative structures as a show of solidarity and, more importantly, as a mechanism towards improving operational efficiency. While the isomorphic diffusion framework has helped greatly in shaping our understanding of the apparent similarities in organisational structures and processes, it has been criticised for being highly deterministic and failing to account for change and strategic choice-making behaviour among organisations in a field (e.g. Lounsbury, 2007; Scott, 2008, Kondra and Hurst, 2009).

Neo-institutionalism, the new version of institutional theory, however focuses more on logic and rationality and not the taken-for-grantedness that engulfed much of old institutionalism (Lounsbury and Crumley, 2007b, Wry, 2009, Lounsbury, 2007a). Neo-institutionalism seeks to explain change, innovation, and more specifically practice²³ variation within institutions in a field (Lounsbury and Ventresca, 2003; Ma and Tyles, 2009). This new version of institutional theory however appears to have many variants within it which emphasise different concepts [for example power, culture, and social context (e.g. Oliver, 1997; Lounsbury and Ventresca, 2003; Ma and Tayles, 2009)] that are expected to account for the dynamics of both intra-institutional and inter-institutional behaviour. Regardless of these different concepts, practice variation remains the key research focus of most neo-institutional theorists.

²³ “Practice refers to activity patterns across actors that are infused with broader meaning and provide tools for ordering social life and activity” (Lounsbury and Crumley, 2007b, pg. 995).

Practice differences among institutions in a field, as Lounsbury (2007) outlines, may be due to two conceptual approaches to rationality in decision-making. Firstly rationality may be exercised strategically. Proponents of this view contend that organisational analysts should examine the different strategic choices organisations make in response to institutional pressures. For example, Khadaroo (2005) notes that while some institutions choose to compromise with stakeholders' demands, others may resort to avoidance, manipulation, or outright deviance or ignore the existence of institutional pressures. For instance in the field of microfinance, some institutions appear to defy the widely acclaimed group-based lending mechanism in favour of an individual model of lending. Some provide microcredit without training which is a strategic component of microfinancing aimed at developing human capital for poverty reduction, yet others do not.

Secondly, rationality of institutional behaviour can be explained 'institutionally' rather than instrumentally as seen in the case above. In this perspective institutional behaviour is a function of rationalised myths²⁴. Advocates of this view posit that, in most cases, institutional environments are pluralistic, hosting multiple forms of rationality, which in essence explains practice variation among organisations in a field (Lounsbury, 2007). As reflected in chapter two (section 2.4), the myth that MSE owner-managers are ignorant about the benefits of BDS to their enterprises engulfs much of the formal entrepreneurship support programmes run by state authorities. However while some MSE owner-managers buy the idea and often participate in such programmes, the majority do not see the cost-benefit ratio to be in their favour (Storey, 2004).

In addition to the rationality concept, neo-institutionalists have also employed the notion of logics, a concept closely related to rationality, in their attempt to explain practice variations across organisations. Institutional logics refer to a broad set of cultural beliefs that direct cognition and influence decision-making among actors within a field (Lounsbury, 2007a). It appears that institutional logics (as social constructs) are embedded within a social context of the wider social space (Ma and Tayles, 2009). These logics manifest themselves via patterns of material practices, values, and rules through which individual organisations not only orient and justify action (Wry, 2009),

²⁴ Rationalised myths are "...impersonal prescriptions that identify various social purposes as technical ones and specify in a rule like way the appropriate means to pursue these technical purposes rationally. ..are highly institutionalised and thus in some measure beyond the discretion of any individual participant or organisation" (Lounsbury, 2007, pg. 5).

but also make their social reality meaningful (Lounsbury, 2007b). It is important to note that although logics confer the principles against which institutional behaviour takes shape; their manner of influence is not predictable (Wry, 2009). Against this premise it may not be difficult to imagine how multiple institutional logics exist and compete, as a result of which divergent practices among organisations within a field become apparent. A case in point in the microfinance field may be that in the pursuit of poverty alleviation (a social reality) some institutions are inclined to engage in developing human capital (a social logic) while others are given to a minimalist approach of money exchange, embracing a more commercial logic.

Besides explaining variations in 'field' operations, the notion of institutional logics helps organisational researchers realise that the motivation behind human activity incorporates social obligations over and above economic ends. Arguably the chances of survival of an organisation are determined largely by its responsiveness to societal expectations, implying that those organisations that meet social expectations are rewarded by way of access to resources and increased legitimacy (Oliver, 1997; Scott, 2008). Oliver (1997) notes that an organisation can acquire a competitive advantage by exercising its differential ability to manage strategically the institutional context of its key resources.

Logics in practice variation aside, attention is turned often to how institutions respond to change as they strive to sustain legitimacy. Dacin, Goodstein, and Scott (2002) report three major sources of pressure on institutionalised practices; namely functional, political and social sources. While functional drivers of change relate to dissatisfaction with an organisation's performance levels and are linked to wider changes in the operating environment (for example increased competition for resources), political pressures pertain to changes in interests and underlying power proportions. Shifts in political power may occur as a response to performance crises or environmental uncertainties that could force management of an organisation to become critical of the legitimacy of existing structures and practices. Institutional change may be engineered also by social pressures stemming from discordant beliefs (Ma and Tayles, 2009), for example, a shift in social expectations that may constrain a set of organisational practices. Therefore the above pressures arguably compel organisations to deinstitutionalise current structures and practices (re-invent themselves) and create a

new balance (higher levels of legitimacy) between their practices and the exigencies of key stakeholders.

Unlike the old institutionalism, neo-institutionalism arguably lacks a solid conceptual framework which could help harmonise the different notions aimed at explaining practice variation among actors in a field. This absence notwithstanding, social reality encompasses multiple structures and logics which actors can draw on to critique extant practices; eventually design new alternative practices that not only become institutionalised but which are suitable also to the prevailing social context (Wry, 2009). In essence, neo-institutionalists posit that efficiency is a necessary but not sufficient condition for the survival of an organisation. Legitimacy in the eyes of the society is a better reward towards enhancing survival of organisations in a field (Khadaroo, 2005). In summary, neo-institutionalism has evolved as an interactive and holistic theory that seeks to explain how organisations become transformed into institutions with an enduring reality and value. The theory incorporates the notions of logic and rationality in practice related decision-making, both within and between institutions in a field, in order to promote legitimacy and hence achieve greater economic and social fit (Scott, 2008).

While neo-institutionalism appears to account for the more macro-level environmental forces that may wield influence on institutional behaviour, it does not adequately explain dynamics within a social space, particularly variations in practice occasioned by power struggles amongst institutions in an industry. To this effect Bourdieu's theory can be employed as an alternative yet a complementary conception in explaining practice variation in microfinancing.

3.2.2 'Theory of practice' by Pierre Bourdieu

In his formulation of a theory of practice, Bourdieu (1977) perceives institutions as representing structured positions in social space. Collectively institutions make up a society of social systems and sub-systems which take the form of hierarchies that tend to reflect similar laws (DiMaggio, 1979). The hierarchies arguably represent structural networks that are nurtured by relatively enduring social patterns. In turn these social patterns depend on systematic misrecognition of their oppressive nature by both dominators and dominated. For example, and in Bourdieu's perspective, the

misrecognition is inculcated by differential socialisation of children of different social classes in advanced societies (Bourdieu, 1977).

For institutions however (DiMaggio, 1979), misrecognition of oppressive behaviour camouflages itself through rationalisations of processes advanced both within and about the fields in which they are actively represented. In addition, either consciously or unconsciously, institutions engage in routine self-censorship of communication to make it appear legitimate according to the relative positions occupied by their target audience in a field. The multidimensional space within which institutions operate is one marked by struggle and position-taking behaviour (power games) with various actors resorting to 'language' and symbolic activities to enhance chances of their reproduction and dominance over time (Everett, 2002, Lounsbury, 2008). For example, even when MFIs run by NGOs transform into commercial banks, some may still claim to be committed to microfinancing in order to access capital from donors at concessionary rates. At the heart of Bourdieu's view of the dynamics of power contests within and between social structures are three concepts; fields, capital and the habitus.

In the context of social space, fields are networks of social relations, structured systems of social positions within which struggles occur over stakes and access to resources (Oakes et al., 1998, Everett, 2002, Bourdieu, 1990). As structured spaces of positions, fields are occupied by two opposing sets of players, the dominant and the dominated, who constantly engage in manoeuvres to control both the processes through which the field reproduces itself and its most significant power (Everett, 2002, Emirbayer and Johnson, 2008). In the case of microfinance, some stakeholders especially donors and shareholders, as patrons of capital appear to wield significant dominance on the design of microfinance programmes. From a relational perspective therefore such acts in effect influence directly the nature and quality of services accessed or not accessed by the poor (the dominated). A case in point, while human capital development, through provision of BDS was initially seen as key to poverty reduction among MSE owner-managers (see discussions in chapter one sections 1.3 and 1.4) lately in practice it appears provision of microcredit in the absence of training is more important.

Shenkin and Coulson (2007) observe that a number of fields may be at play in any given social interaction, especially if one is cognisant of the complex nature of the social world in which we live. As such, different fields pursue various levels of freedom while

attempting to provide unique and field driven solutions to a common social problem. For instance, economic discrepancies within members of a community may attract multiple solutions from say the political, cultural, and the market spheres; each of which is a field in itself with its own unique view of the problem. In this regard it appears social space in any society may comprise of so many fields that it might be difficult to fathom a state of amicable co-existence. Therefore it would appear that some form of classification is required so that analysts can understand what is a relevant or not so relevant field (or actors within a field) in a given social problem.

According to Bourdieu, fields may be categorised as restricted or widespread production (Everett, 2002). Whereas the output of widespread production fields is targeted at the consuming public in general, restricted production fields target their output to producers of similar goods within the hierarchy. As such the performance of the latter tends to be legitimatised on the basis of field-specific and ‘technical’ terms whereas the former are evaluated through a non-field specific criterion. Everett (2002) contends further that in some cases the widespread field may tend to dominate the operations of the restricted field. Where significant domination is witnessed, the restricted field lacks autonomy in its practice. In broad terms and in any economy, financial services institutions represent widespread production, the performances of which are measured generally in non-field specific terms e.g. financial ratios. On the contrary, MFIs account for a restricted form of production in that they not only target their services to the poor, but their performance is expected to be measured arguably on a largely poverty reduction criterion, in line with their acclaimed mission.

In sum therefore, to perceive institutions as fields, one would need to recognise the relational contexts within which they are positioned as well as the particular discourse(s) to which they contribute. In a sense given their claims, MFIs are engaged arguably in a poverty reduction discourse. Beyond the interactions between various actors, fields represent an interplay of relations amongst positions that the different actors occupy in a social space. It is the symbolic positions (occupied by field actors) that collectively make up a dialectical state of power relations; one in which an actor’s endowment with the relevant resources determines access and position sustenance, or even ascent to a more influential position (Emirbayer and Johnson, 2008).

Much as the dynamism exemplified in a field is about power relations, at the core of the contest is an urge towards a strategic control of the most influential set of resources within the field. Bourdieu conceptualises the most critical resource(s) within a field symbolically as capital, which in essence is reflective of “...attributes, possessions, or qualities of a person or a position exchangeable for goods, services, or esteem, [and which] exists in many forms – symbolic, cultural, social, or linguistic, as well as economic” (DiMaggio, 1979, pg. 1463). It is important to note that, in Bourdieu’s view, the notion of capital does not hold any significant meaning or effect other than in relation to a specific field (Emirbayer and Johnson, 2008). To Emirbayer and Johnson (2008) this implies that the relative position held by an institution (or a group of institutions) within a field at any given time is reflective of the capital species associated with it (or them).

Although Bourdieu’s notion of capital is all encompassing, two main forms of capital exist under his paradigm. Economic capital particularly refers to material possessions. These would include ordinarily money, physical assets, and other indicators of productive capacity in a field. The second form of capital is cultural capital²⁵ which represents less tangible, yet worthy assets to institutions; for example, access to knowledge and skills, and taste. Other institutionally significant forms of capital include social and symbolic capital (Everett, 2002).

To Everett (2002) social capital implies the powers and resources potentially which are accessible to a person or an institution by virtue of membership of a group. Further social capital offers individuals and possibly institutions a favourable social identity that could translate into improved trust, cooperation and access to accurate information (Baron and Markman, 2003). Symbolic capital is a composite form of capital derived from other forms of capital discussed above. Symbolic capital is deemed to be constituted and becomes critical if and when the other forms of capital assume legitimacy among critical actors within a field. To Bourdieu, symbolic capital is the most valuable state of capital because in it rests the basis on which wealth, the foundation of power, acquires symbolic authority exerting lasting influence (Everett,

²⁵ Cultural capital manifests itself in three ways; embodied, objectified, and institutionalised cultural capital. Whereas embodied cultural capital refers to long-lasting dispositions and forms an integral appropriation of an institution’s external wealth; objectified cultural capital reflects itself in cultural goods like instruments and machines. Institutionalised cultural capital refers to an institution’s officially recognised competence handed down through a process of certification (Everett, 2002, pg. 62).

2002, Emirbayer and Johnson, 2008). As applied in the field of microfinance, social network groups formed of MSE owner-managers are clearly a form of social capital. It is this social capital that MSE owner-managers (as members of a group) leverage to access MFIs' supplied microcredit and BDS, representing economic and cultural forms of capital respectively.

Further, Emirbayer and Johnson (2008, pg, 13) state that “ the interplay of a variety of different species of capital (including symbolic capital) leads to the emergence within any organisational field of a capital specific to the particular field, which enables the dominant(s) within the field to exercise power over the field as a whole .” Therefore power contestations among field actors concern the legitimacy of valuations of the various types of capital for which respective actors are deemed to be well endowed. As such, institutions will strive to discredit the form of capital upon which the influence of their competitors holds and promote the grain of capital they possess or cherish. Additionally the species of capital held by an institution influences not only its position in a given social space but significantly also its identity (Everett, 2002).

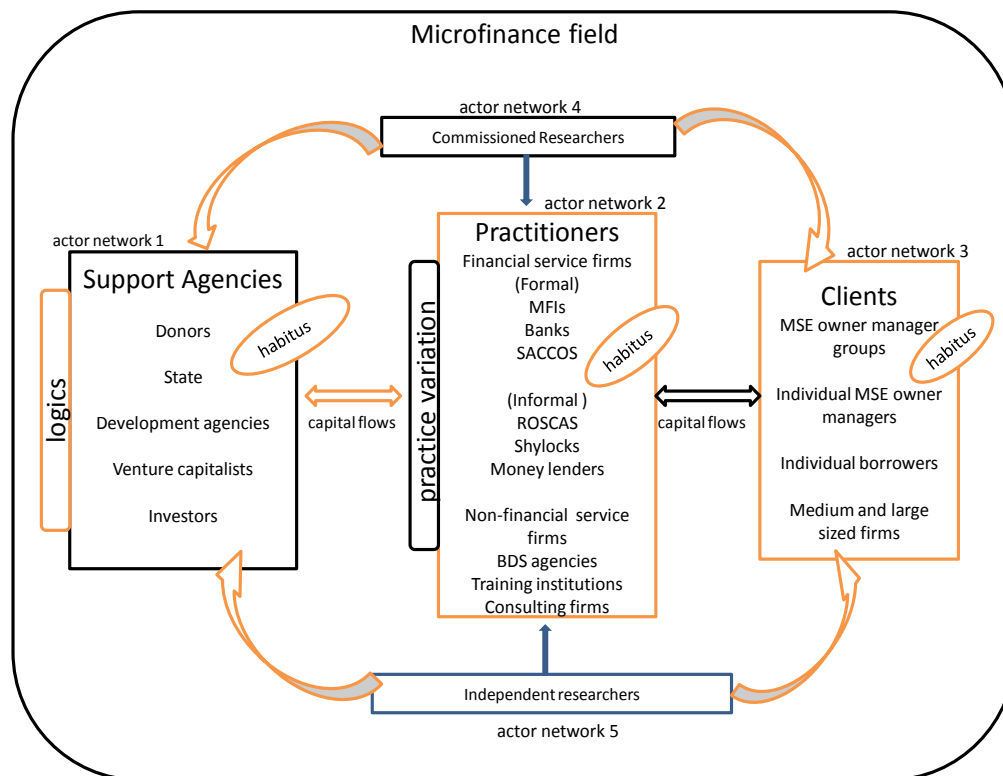
In correspondence with an institution's capital profile and identity, the common thread that arguably explains the position-taking behaviour of institutions within social space is the habitus. Defined variously, habitus is for example seen as a system of lasting and transposable dispositions (DiMaggio, 1979, pg, 1464); as dispositions generative of action strategies (Emirbayer and Johnson, 2008); and as a construct which contains and reflects the politics that influence an agent's way of interpreting and acting on social space (Shenkin and Coulson, 2007, pg, 302). The habitus has been described also simply as a worldview which helps to integrate the notions of field and capital at an individual level (Dobbin, 2008, pg, 58). Notwithstanding these multiple views, in Bourdieu's original conception, the habitus is the established principle of regulated improvisations; a system of structured and structuring dispositions which is found in a field (Bourdieu, 1977). From the foregoing it could be inferred that the habitus is an interpretative frame that institutions use to guide their decisions and make sense of the developments within a field. For example, it appears that increased demand for microfinance services among the poor in developing countries coupled with donor resource constraints are forcing MFIs to be more innovative in the design and configuration of their programmes. In this regard, while a few MFIs remain committed to serving the poor by offering microcredit, BDS and other support services, the

majority appear to have given in to normative pressure (in the form of commercial banking principles). As such, they have embraced practices that closely resemble those of their counterparts in the ‘widespread production’ targeting the general public. Such acts are indicative of the various habituses at play within the microfinance field.

The habitus, as a matrix of perceptions, enables institutions to direct their actions towards more practical functions facilitating the achievement of infinite and diverse tasks within the limits of structured social space (DiMaggio, 1979, Shenkin and Coulson, 2007). In other words, the habitus helps also in structuring the perceptions of possible position-taking behaviours within a field; separating actions that are judged more legitimate and desirable from the illegitimate and undesirable ones (Emirbayer and Johnson, 2008). Though enduring the habitus is not static; it changes in response to the dynamics and more specifically to the evolving nature and proportions of capital within a field (Everett, 2002).

Conceptually, based mainly on Bourdieu’s views, microfinance as a field of practice may be mapped as depicted in Figure 2. As the Figure shows, actors in the microfinance field may be grouped into three categories i.e. support agencies, microfinance practitioners, and clients. It is important to note that the relationship among these actor groups is seen as being interactive in nature as reflected in the capital flows. Actor interrelationships are expected also to be shaped by the individual actor habitus. Guided largely by this framework, the next section applies the concepts introduced in section two above to assist in understanding developments in the microfinance field.

Figure 2: Diagrammatic Representation of a Conceptual Framework (a Bourdieusian perspective) for Microfinance



3.3 Microfinance as a Field: Emergence, Practice variation, and Position-taking behaviour

The growth and development of MSEs is seen as critical to improving the conditions of life, especially among poor people in developing countries (Arch, 2005, Morrison et al., 2003, Hartungi, 2007, Sievers, 2007, Gibb, 2006, Boter, 2005). This goal has however been hampered by lack of access to affordable credit and other supporting services, for example training, available to MSEs (Morrison et al., 2003, Khandakar and Constantine, 2004b). Growth in the popularity of microfinancing since the 1990s (Lont and Hospes, 2004), in most parts of the developing world, was partly driven by it being seen as a mechanism for improving access to support services, especially microcredit, among poor households and their microenterprises. This section of the chapter employs the theoretical framework presented in Section 2 above to examine literature relating to the conception, practice variation, and the dynamics that characterise the broad practice of microfinancing as an instrument for MSE development.

3.3.1 Microfinance evolution: a case of an emerging ‘Field’

Over the years the struggle to overcome poverty, the lack of means of livelihood (Lont and Hospes, 2004), and the underlying discourse of social reality (Bourdieu, 1977) has persisted with limited levels of success. A progress report on global poverty submitted by the World Bank at the G8 summit in Okinawa – Japan in the year 2000, indicated that although improvements in health and education levels had been witnessed in the previous century, an estimated 1.2 billion people were still living on less than US \$1 a day and 3 billion lived on less than US \$2 a day (World Bank, 2000). However for the period between 1990 to 2005, the number of people living on less than US \$1.25 a day dropped from 1.8 billion to 1.4 billion (World Bank, 2008).

Further, following the recent (2008) global financial crisis, an estimated 55 to 90 million more people are likely to be living in extreme poverty than was previously anticipated (United Nations, 2009). In the words of Bourdieu this puzzling state of deprivation among the ‘dominated’ is on display apparently amidst outstanding economic prosperity for the few - the ‘dominant’ (Arch, 2005, Bourdieu, 1977).

Most poverty alleviation efforts emphasise the need for increased entrepreneurial activity among the poor in a bid to bridge ‘the dollar gap’. According to authors (Cook and Belliveau, 2004a, Arch, 2005) and backed by views of economists using empirical

data, it is posited that a positive relationship between existence of SMEs and certain aspects of economic development, for example employment generation, exists. However it is worth noting that this expected positive impact may not be sustained without the necessary support in the form of either financial and/or technical skills required to run a business successfully. Lack of start up capital and access to quality BDS remain critical barriers to entrepreneurial activity among would-be entrepreneurs in most developing economies (Arch, 2005, Lont and Hospes, 2004, Akoten, 2007a).

The genesis of the microfinance movement can be traced back to the 19th century. Writing on microfinance and development Arch (2005) traces some form of microfinance operations back to the German credit union movement that was popular for the better part of the century. The movement was established on the basis of charity, reflecting a form of social development ‘logic’ that underpins a significant proportion of microfinance programmes even to date. There were similar organisations in most parts of Europe as well as in parts of Sub-Saharan Africa-especially Kenya (Folwer and Kinyanjui, 2004) as previously reported in section 2.3.1 of chapter two. The bulk of microfinance activities had their humble beginnings in the non-governmental organisation (NGO) world, driven by the desire to alleviate poverty, a form of social structure (Bourdieu, 1990) that engulfs the livelihoods of poor people in nations all over the world (Remenyi and Quinones, 2000, Arch, 2005, Lont and Hospes, 2004, Khandakar and Constantine, 2004b).

As a practice, microfinancing has attracted various interpretations. The term microfinance has been coined to represent arguably a wide array of concepts and activities; including microcredit schemes, training and social empowerment programmes undertaken by, for example, NGOs and community based organisations (CBOs); village banking, networking and loan schemes of self help groups (SHGs) and rotating savings and credit associations (ROSCAs); and small and medium enterprises (SME) banking services offered by national and regional banks, among other related services. Seibel and Kumar (1998) offer a comprehensive definition, according to their view, of what microfinance means;

“Microfinance is defined as a sector of formal and nonformal financial institutions providing microsavings, microcredit and microinsurance services to the microeconomy, hereby allocating scarce resources to microinvestments... In a narrow sense, microfinance institutions are small local financial institutions. In a wider sense, they may also comprise national or regional banks with

microfinance services for small savers and borrowers ...The microeconomy includes such target populations as microentrepreneurs, small farmers and the landless, women and the poor.” (Seibel and Kumar, 1998, pg, 4)

It is clear from the foregoing that the concept of microfinancing is designed as a framework to promote entrepreneurial activity among poor people or the micro sector of a national economy. A typical microfinance institution provides a mechanism through which ‘poor’ people can access small sums of money to enable them to take part in economic activities that would otherwise be unavailable to them (Arch, 2005). As Kibaara (2006) observes, the principal objective of microfinance programmes is to raise incomes and broaden financial markets by providing financial services to small-scale entrepreneurs who ordinarily would not have any access to established capital markets. However as Edward and Olsen (2006) note, although provision of microcredit and other forms of financial services intermediation underpin most microfinance programmes. However social empowerment of women, training and other forms of business development facilitation appear to be part and parcel of microfinancing as a broad mechanism of poverty alleviation (see Morduch and Haley, 2002, Armendariz and Morduch, 2010, Microcredit summit campaign, 1997). As later discussed in this section of the chapter, this mission appears to have changed significantly over the years.

The primary target market for microfinance services has been the low income class of the economy or simply the poor, although there are criticisms about whether the truly poor are really being reached (e.g.Morduch, 1999, Khandakar and Constantine, 2004a, Lont and Hospes, 2004, Schmidt, 2010) . This low income category includes groups of people who run micro, small-scale and medium enterprises (Arch, 2005, Edward and Olsen, 2006, Hartungi, 2007, Argwings-Kodhek et al., 2004a). The sizes of the businesses may vary widely from one location/region to another and even among countries in the same region. As a result, most MFIs prefer to organise their clients in groups based on shared characteristics. More importantly however, group membership provides a form of social capital that serves as alternative collateral to cushion lenders against the risk of possible loan defaults. Additionally group lending has an economic principle behind it in that there are economies of scale that accrue when handling groups of people (representing several microenterprises) as opposed to serving directly each one of them. Group lending has been applauded arguably as the most successful way of handling MSEs all over the world, as evidenced by the mimetic isomorphic diffusion

(DiMaggio and Powell, 1983) referred to earlier in this chapter (see section 3.2.1) that has greeted the practice since the 1990s.

Over the years, various actors in the field of microfinance, including governments, donors, NGOs and other international development agents have come to realise the critical role microenterprises can play in both national and regional economic frontiers. Given this, these actors have time and again either formulated, or supported the formulation of, structures (for example microcredit and training schemes), to nurture entrepreneurial activity (Lont and Hospes, 2004, Khandakar and Constantine, 2004ab). For example in early 1980s, with the support of donor agencies, Professor Muhammad Yunus (Nobel Laureate 2006), established the now famous Grameen bank in Bangladesh, which is acclaimed as one of the most successful microfinance institutions (MFIs) in the field of microfinance (Khandakar and Constantine, 2004a). The bank was set up as a NGO offering relatively small loan amounts (e.g. \$100) to poor rural women against social trust; an example of social capital, secured through peer group member guarantees.

Enhancing cultural capital – inclusion of BDS in microcredit programmes

As already alluded to, alongside microcredit schemes, BDS, a composite form of cultural capital, has emerged also as a structure that MSE support agents (e.g. MFIs) appear to emphasise as critical towards promoting entrepreneurship among the poor (Edward and Olsen, 2006). Since the birth of MSEs, traced back to the era of industrial revolution (Matlay, 2004), skill shortages or lack of access to training has been noted in many parts of the world to affect their survival rates, growth and performance (see detailed discussions in section 2.4.1 of chapter two) (Faoite et al., 2004). Many people, including academics, government agencies and business practitioners, recognise the importance of training in equipping entrepreneurs with the necessary skills to establish and manage their own businesses (Sievers, 2007). The term BDS is used as a representation of various concepts, all referring to non-financial services targeted at improving the performance and survival (institutionalisation) of MSEs. Some of the related concepts include; technical assistance/support, business counselling, business advisory services, training, and entrepreneurship education, among others (Faoite et al., 2004).

Since the 1960s, the focus of support initiatives for MSEs has experienced some major swings and turns. From the start, state governments and donor agencies, motivated by the desire to promote industrialisation through private enterprises, offered both credit and some form of BDS to MSEs (Sievers, 2007). For the better part of the 1970s and early 1980s, BDS was provided mainly by development banks, government departments and other development agencies, especially NGOs. At this stage the nature of BDS offered was mainly basic management training with particular emphasis on preparation of business plans. BDS was offered as a pre- or co-requisite for credit by a majority of micro-lenders or MFIs at that time²⁶. Notably most development support agents encouraged MFIs to provide training to their clients to ensure profitable use of microcredit (Sievers, 2007, Goldmark, 2006).

Authors (e.g. Matlay, 2004, Faoite et al., 2004) observe a notable increase in the use of BDS by MSEs over the years. As alluded to in section 2.4 of chapter two, in addition to their credit providers, entrepreneurs are most likely to seek advice/support from a wide range of formal and informal sources. Some of these include trade associations, government agencies, professional service firms (consultants), third-level educational institutions, mentorship networks, clients, suppliers and even other individuals connected with the business. Bennett and Robson (1999), present a review of some 13 previous studies on sources of business advice in Britain and consider that sources of business advice can be grouped into six categories; Professional specialists, Professional generalists, Market contacts, Social contacts, Business associates, and Government agencies (Berry and Sweeting, 2006). The specific participants involved in the provision of advice to entrepreneurs include auditors/accountants, credit officers and bankers, legal advisers, business counsellors, marketing/management consultants, market contacts/business associates, friends and family, academics, and business support agencies (Boter, 2005). It is important to note that in the case of developing countries, many of these sources of business advice may not be accessible to MSE owner-managers (Hallberg, 2006, Suzuki, 2002).

Delivery of BDS tends to adopt either a structured curriculum, as is the case in institutions of higher education offering entrepreneurship training, or an informal

²⁶ Some examples of MFIs that claim to offer BDS as a complement to microcredit services include Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), and Kenya Rural Entrepreneurship Programme (K-rep).

arrangement. As Hisrich and Peters (1998) observed, in the case of structured training emphasis is on developing technical skills (for example operations and production abilities), business management and improving a person's entrepreneurial attributes (Faoite et al., 2004). Within this framework financial management, marketing and general business management topics are more popular than other subjects in entrepreneurship programmes (Faoite et al., 2004). The informal SME support initiatives are offered as a complementary package to the formal entrepreneurship training. Authors (Faoite et al., 2004, Berry and Sweeting, 2006) note that among MSEs, informal skill development initiatives often take the form of seminars/workshops, internships/mentorships, coaching, business counselling and general networking opportunities. Given the resource constraints among microfinance practitioners and their donors, it is likely that of the two arrangements noted above, the informal framework of BDS delivery is most commonly practised.

In view of the range of services and actors involved, BDS appears to constitute an important sub-field within the field of microfinance. This is the status accorded to BDS in this study. In short, BDS practices (within the field of microfinance) appear to represent a broad mechanism for building and enhancing both cultural capital and social capital among target MSE owner-managers, aspects that are later exchanged for economic capital – microcredit. While the development of cultural capital is arguably important in helping MSE owner-managers build essential skill sets in business management, social capital is of strategic interest to MFIs which use it as alternative collateral for loans.

Following the remarkable success of the Grameen bank, the concept of microfinance as a tool for social economic development for the poor has diffused mimetically among the developing economies in Asia, Sub-Saharan Africa and Latin America [for example, Bank Rakyat of Indonesia (BRI), Kenya rural entrepreneurship programme (K-Rep) Bank of Kenya, and BancoSol of Bolivia (Arch, 2005, Schmidt, 2010)]. The establishment of Grameen America in 2008 (Grameen America, 2010) is evidence that microfinancing has even permeated the developed world, targeting low-income people within that world.

The growth and development of the modern microfinance sector has depended to a large extent on aid. As a form of financial support, aid can be argued to be a form of symbolic

capital used coercively to shape relations among actors in the field of microfinance. As noted previously, most of the first generation MFIs (especially most of those set up either before or in the early 1990s) were NGOs, which received extensive financial support from governments and donors. The funds were then passed on to MSEs as small loans to be repaid, supposedly with minimal interest. NGOs by their very nature are mostly not-for-profit establishments. All their activities, including microfinance programmes, are geared to achieving a social objective. In the case of microfinance, the social objective is *to alleviate poverty* or simply to *improve the standard of living of poor people* by way of promoting entrepreneurship. It is likely that the pursuit of development, a social logic of improving the livelihoods of the poor, has won microfinance practitioners legitimacy among donors, poor MSE owner-managers (clients), and the general public at large. So strong has the appeal of microfinancing been that normative pressures and voices of critics (Schmidt, 2010, Khandakar and Constantine, 2004a, Morduch, 2000) appear to be ignored consistently.

Actors in the microfinance field

In broad terms and on account of their respective roles, actors in the field of microfinance may be grouped into three categories as reflected in Figure 2. The first group represents support agencies which offer financial and/or institutional assistance to microfinance practitioners. Included in this category are state authorities, donor organisations (e.g. USAID), international NGOs (e.g. Opportunity International, World Vision), and traditional development agencies (The World Bank's and UN's) through their affiliate organisations – Consultative Group to Assist the Poor (CGAP) and United Nations Capital Development Fund (UNCDF) respectively. In this category also are organisations established specifically to serve the microfinance sector, such as Women's World Banking (WWB), Foundation for International Community Assistance (FINCA) and Americans for Community Co-operation in Other Nations (ACCION). Private investors, for example venture capital firms and hedge funds, are among other actors in this category (Arch, 2005, Schmidt, 2010).

The second category of actors in the field of microfinance comprises the practitioners themselves. Although the nature of services and extent of formality varies, the unifying factor among these actors is the fact that most of them claim to be serving the MSE sector in one respect or another. Broadly the practitioners may be grouped into two categories, i.e. financial service and non-financial service, providers. As previously

reflected (see section 2.3.2 in chapter two) and according to Ledgerwood (1999), actors providing financial services to MSEs may further be grouped into formal institutions (e.g. development banks, commercial banks, and MFIs), semiformal institutions (e.g. NGOs, credit unions, and savings and credit co-operative societies (SACCOS)), and informal providers (e.g. rotating savings and credit associations (ROSCAs), self-help groups (SHGs), and moneylenders) (CBK, 2009). It is important to note that some of these practitioners, for example NGOs and some MFIs, provide both financial and non-financial services (Schmidt, 2010, Sievers and Vandenberg, 2007). The last group of actors represents the clients. As a target market for microfinance services, clients may constitute MSE owner-managers both as individuals and in groups, medium to large-sized private businesses, private persons, and households. The next section examines the forces behind the divergence in practice among microfinance providers.

3.3.2 Practice variation in the field of microfinance: logic and capital struggles

This section explores two contending logics; that is, the social and commercial approaches to microfinancing that appear to shape operations in the field of microfinance. The social development logic is first examined. Discussions in this section are aimed at eliciting the forces behind variations in the practice of microfinancing; i.e. the rationale driving either social or commercial logic as well as the various forms of capital contestations amongst actors in the field of microfinance.

As mentioned previously, NGOs have played host to the modern view of microfinancing driven by the mission of poverty reduction in the developing world. The habitus of NGOs, their history of commitment to development, especially in the developing world, informs their embrace of an integrated approach to microfinancing (see discussions in section 2.3.3 of chapter one) in the pursuit of poverty alleviation. Firstly, in line with observations made in chapter two section 2.4, the rationale behind the approach is that improved access to microcredit without the requisite technical support is unlikely to contribute significantly to growth and performance of MSEs owned by the poor, a position hypothesised and tested in this study. Secondly it could be argued that entrepreneurship (as an instrument of poverty alleviation) is a multifaceted phenomena which calls for a broad, but coordinated, mechanism of intervention if the situation of the poor is to improve. For example, the survival of the poor (and especially their enterprises) depends not only on their access to various forms of capital including economic (credit), social (networks), and cultural (know-how), but

is determined indirectly also by their access to a functioning communications infrastructure and health, and education facilities.

As a result, microfinance programmes designed by most NGOs, following mimetically the lead from Grameen Bank's original model, usually incorporating training and other forms of social empowerment (predominantly for women) within their microcredit schemes (Gobbi, 2005, Hartungi, 2007). More often than not MSE owner managers are permitted to apply for and access microcredit after undertaking some preliminary training (Goldmark, 2006). Thereafter, MSE owner-managers, driven by the specific needs of their enterprises, are encouraged to draw on various BDS aspects which are available either from the host MFI (as is the case for Grameen bank clients) or its affiliate institutions.

The salient features²⁷ that distinguish microfinancing, as a restricted field, from traditional commercial banking (representing widespread production) are reflected in differing proportions across practitioners in the microfinance field. For example, MFIs that offer BDS appear to encourage their clients to pursue self-employment by undertaking income generating activities (Khandakar and Constantine, 2004a). It is these income generating activities-MSEs that the MFIs then target with both microcredit and BDS services. The MFIs go to great lengths to discourage clients from using credit for household consumption purposes amongst other diversionary tendencies. For example, during regular meetings with clients, field staff lead members to recite citations to the effect that they will not waste money but instead collectively undertake bigger investments for higher incomes, one of the 'sixteen decisions' of the Grameen Bank (Shakya and Rankin, 2008, Grameen, 2010). This issue is examined through in-depth interviews with MFI representatives in this study, but such actions may be reflective of MFIs' attempts to influence their clients' habitus to bring it in line with economic rationality.

²⁷ Unlike conventional banks, MFI's credit schemes are characterised by; small loan sizes (averaging US\$ 100), primarily to poor rural women who constitute the primary target market; promote self-employment activities; loans are collateral free; and savings mobilisation is encouraged (Khandakar and Constantine, 2004a; 2004b).

Even within the socially oriented MFIs, there are two variants to service delivery. First, as earlier noted is group-based methodology²⁸. As (Bennett, 1998) noted, a key premise of the group-based approach is that with the necessary training, members are prepared to invest and take responsibility not only to institutionalise local practices but also and more importantly, to manage their own enterprises effectively. This appears to be an innovative mechanism of service delivery where MSE owner-managers join with their peers in groups of five to eight members. It is in this group setting that members then receive training on group cohesion, venture creation/management, and financial discipline, among other issues, for an initial period ranging between a few weeks to six months. Once established fully, each group opens a savings fund with the host MFI which then advances microcredit to member applicants in rotation. The training is important as earlier noted, because it helps breed trust through solidarity and creates social capital, a valuable asset both to the potential clients and microfinance practitioners.

In this arrangement, on the one hand, clients enhance their deposit of social capital through social networks of peers which they arguably in return trade for technical support (in the form of BDS) and microcredit (forms of cultural and economic capital respectively) that they can use to promote their enterprises. On the other hand, MFIs use group members' social capital as a means to not only minimise administrative costs but also, and more importantly, as an instrument for mitigating risk against loan defaults. It is noted (Shakya and Rankin, 2008) that most MFIs that use this model approve a member's loan application only upon successful repayment of previous loan balances held by fellow group members²⁹. This means that within a group there is one outstanding loan only at any given time. Against this background it is no wonder that repayment rates reported by most MFIs that use this model average 95 per cent and above (e.g. Arch, 2005). To date, examples of socially conscious MFIs that employ a group-based methodology include Bangladesh's Grameen Bank, PRODEM - a division

²⁸ Within the field of microfinance, group-based service delivery is practised in two versions. Firstly by NGOs delivering Grameen-type microfinance programmes to women only groups of about five members. Secondly by village banks set up and run by CBOs of 15 to 30 local community members (Shakya and Rankin 2008). While the institutional outlook of NGOs' microfinance programmes may give an impression of sustainability, the village banks run by CBOs appear to offer a certain level of informality and flexibility that members may hold with high regard.

²⁹ A group guarantee can either be implicit or actual. Whereas in implicit guarantees, group members can access loans only if fellow members are not in arrears, in actual guarantees group members are collectively held responsible if and when a member defaults (Ledgerwood 1999).

of the BancoSol group of Bolivia, and K-rep Development Agency - of the K-rep group in Kenya.

However, over time concerns have been raised about the group-based microfinancing methodology (Gibb, 2006b, Faoite et al., 2004, Boter, 2005, Berry and Sweeting, 2006). One of the issues is that because groups are formed on a self-selection basis, poorer women are likely to be excluded from joining borrower groups for fear of possible default. As (Shakya and Rankin, 2008) note, such practices serve only to exacerbate already existing socio-economic disparities among communities, which essentially mitigates against the original sociological values of solidarity. Additionally when social capital is exchanged for economic capital within the microfinance framework, groups appear poised to experience social tensions due to the materialistic nature of the latter. For example in Nepal, accounts of defaulting women being subjected to extreme anxiety, restriction on individual freedoms and public shame, are common (Shakya and Rankin, 2008, Lont and Hospes, 2004, Smets and Bahre, 2004).

Finally the group model appears biased towards female entrepreneurs (in SHGs). Women, especially in rural areas, through the ages and in most developing countries, have operated in groups. More often than not the groups are formed to help members in carrying out farm work and in some cases to champion the social-economic empowerment agenda for women (Mayoux, 1998, Jakimow and Kilby, 2006). When MFIs designed the delivery of their services through groups, the development appears to have come as a natural blessing for women who are widely perceived to be more responsible than men (Edward and Olsen, 2006). Nevertheless this issue is declining in importance given that some new forms of MFIs do offer services to individual entrepreneurs irrespective of gender or group affiliations (Edward and Olsen, 2006). The concerns discussed in this and the preceding paragraphs demonstrate clearly how economic capital appears to exert dominance over other forms of capital, in this case social and cultural capital.

The second method used in delivering microfinance services among socially oriented MFIs is individual-based. This methodology has grown partly out of criticisms extended to the group-based microfinancing approach discussed above. As would be expected in the absence of social capital, in the individual-based approach MSE owner-managers are required to raise loan collateral either in the form of land, business machines,

consigners³⁰, and or chattels (Ledgerwood, 1999). However the individual method of microfinancing is still not clearly asset- and/or document-based as traditional financial institutions, i.e. widespread production, would have it. While a significant part of the risk is covered arguably by borrower consigners and chattel pledges, loan officers are held responsible (on a performance basis) for the entire loan granting and recovery process (Schmidt and Zeitinger, 1998). In essence therefore it would appear the risk of default is shared between the individual borrower and the MFI's staff representatives. One clear advantage of this model is that individuals are likely to keep their dignity and social position in society while at the same time accessing microfinance services suited to the peculiar circumstances of their enterprises.

Given the collateral demands, the individual-based model of microfinancing is by default likely to target the marginally poor and hence exclude the core poor from accessing either microcredit and/or BDS. Some examples of MFIs that use individual-based microfinancing include Association for the Development of Microenterprises (ADEMI) of the Dominican Republic, Kenya Women Finance Trust (KWFT) of Kenya, and Share microfinance of India.

Self-sufficiency – commercial logic and microfinancing

The period beginning in the early 1990s marked a new dawn in the field of microfinance. It appears that the legitimacy of the social logic driven approach to microfinancing had begun to be questioned, especially by resource-constrained donors. There were concerns that the altruistic-like approach to microfinance was either too expensive and/or not sufficiently effective in alleviating poverty (Morduch, 1999, Schmidt, 2010). Seemingly this development led to the adoption of a commercial logic to microfinancing by donors in general and consequently by practitioners in what appears to be a strategic response to coercive pressure from providers of seed capital. The rationality behind the new paradigm is that financial self-sustenance is imperative in institutionalising microfinancing practises. One key implication of the notion of financial sustainability is that, henceforth, MFIs need to streamline their operations, cut down on costs, and improve efficiency. MFIs can then begin to tap into private and public resource markets (the perceived sustainable option used by most business enterprises) and hence lessen the funding burden on donors.

³⁰ Consigners are private individual persons who choose to act as guarantors to loan by an applicant who is not affiliated to a group.

The introduction of a commercial logic in the microfinance field saw practitioners shift significantly their delivery of both credit and BDS to MSEs. Goldmark (2006) reveals that use of BDS was no longer a prerequisite for MSE owner-managers' access to microcredit for many MFIs. As such, BDS was not seen to be a critical part of the MFI's service portfolio, although a few still strongly encouraged it. This development was led partly by claims, mostly by MFIs taking up a commercial outlook, of a general lack of demand for BDS among MSEs (a claim which appears consistent with earlier observations in literature, see chapter two section 2.4). This account is probably an example of coercive (DiMaggio and Powell, 1991), social and political pressure (Ma and Tayles, 2009) among lenders and borrowers alike. In addition some MFIs that had began as NGOs traded up to become mainstream commercial banks³¹ and, as such, had to comply with the strict financial sector regulations that demand separate accounting for credit and BDS, or requirements that financial institutions should not offer non-financial services such as BDS. Under such circumstances, it is likely that microfinance practitioners would succumb to normative pressure and focus on exclusive provision of economic capital (microcredit) at the expense of other aspects of human capital development such as BDS.

Regardless, coercive pressure is arguably the main reason behind commercialisation of microfinancing, partly driven by donor apathy and economic capital constraints. Following early indications of only marginal financial sustainability for MFIs operating in Latin America and parts of Asia, most donor agencies felt that BDS was an unnecessary cost in the interest of ensuring full financial sustainability of MFIs (Sievers, 2007). As Webster, Riopelle & Chidzero (1996) noted, during this period there was a general perception among practitioners that the ratio of cost to benefits of BDS provision was poor. As noted earlier similar sentiments appear common among MSE owner-managers, albeit for different motives. It is important to note that the apparent de-institutionalisation of BDS as a form of cultural capital in the field of microfinance is a clear example of devaluation of cultural capital and, more importantly, in the language of Bourdieu (1990), an act of symbolic violence being practised by agents of economic capital.

³¹ Examples of MFIs that have become commercial banks include Kenya's K-rep bank, Share Microfinance of India, Bolivia's BancoSol, and Compartamos of Mexico, among others.

In an effort to reclaim legitimacy, policy makers and BDS practitioners under the auspices of the Committee of Donor Agencies for Small Enterprise Development (CDASED) took the sustainability challenge (functional pressure) positively and invented a new market development paradigm for BDS in the late 1990s (Sievers, 2007). The new approach for BDS provision had two distinguishing characteristics in that it was both market-oriented and client-led; attributes that seem congruent with the existing socio-economic context. In line with the new BDS paradigm, Goldmark (1999) noted that marketing services (especially those relating to inputs and outputs) and technology access services were both found to have some chance of sustainability. Demand for vocational skills training among micro start-ups was also indicated to be relatively high compared to more established enterprises.

Following this development, several BDS programmes have been piloted and/or set up, mainly in developing countries; for example Bangladesh, Bolivia, India, Kenya, Mali and Zambia. This has been done mainly under the umbrella of the Emerging Markets Group (EMG) sponsored by various development agencies including The World Bank, USAID, Department for International Development (DFID), International Labour Organisation (ILO), and the Swiss Agency for Development and Cooperation (SDC), among others. The programmes provide BDS interventions along the product value chain in specific sectors. For example in Kenya, BDS programmes have targeted sectors like horticulture, dairy, and fishing (KenyaBDS, 2007). The current thinking is that in order to ensure sustainability, BDS practitioners need to develop products that address a distinct business weakness or provide a service that the enterprise cannot generate internally (Klyver, 2008, Matlay, 2004, Faoite et al., 2004, Boter, 2005, Berry and Sweeting, 2006, Sievers, 2007). In the words of Scott (1987) such an effort could be seen as a case of BDS providers trying to not only re-invent their product to attain greater legitimacy among stakeholders, but also improve the cost-benefit ratio of BDS among MSE owner-managers.

On the part of microcredit programmes, the proliferation of the commercial logic appears to have spurred a wave of ‘innovations’. Firstly NGOs began to transform into quasi-financial institutions ushering in a commercial banking mode of practice into microfinancing (Young, 2010, Khandakar and Constantine, 2004a). Secondly, a minimalist approach in which credit is the only product becomes the *modus operandi* across the microfinance field. Except for a few highly principled MFIs, for example,

BRAC of Bangladesh, CARE, and Pro Mujer of Latin America (Armendariz and Morduch, 2010), savings, insurance and BDS do not appear to be part of the portfolio in most other cases. Thirdly, private investors (e.g. venture capitalists and hedge funds) have become active actors in the microfinance field as lenders (Schmidt, 2010). Fourthly, recently (2006) some MFIs went public³², listing on stock markets in order to enlarge their capital bases (Schmidt, 2010). If policy makers who championed self-sustenance of microfinancing had a social consciousness-driven motive, then it appears they got more than they had hoped for. Clearly the entrance of venture capitalists and hedge fund managers to the scene of microfinance is a clear demonstration that the once development-conscious field is turning into an asset-class platform, driven by sheer profiteering. It is important to note that the latter category of ‘investors’ are arguably largely to blame for the most recent (2008) global financial crisis whose full consequences are yet to come to bear, especially in the books of MFIs.

Critics of the commercial approach to microfinancing abound (e.g. Schmidt, 2010, Khandakar and Constantine, 2004b, Morduch, 2000, Gibb, 2006b, Edward and Olsen, 2006, Young, 2010). Using case data from India to inform a critique of paradigms and reality in the context of MFIs, authors (Young, 2010, Edward and Olsen, 2006) bring to the fore the downside of microfinance commercialisation. A similar view is shared by Gibb (2006b) who contributes to the literature on MSE development and the current debate on the sustainability of support services from a Chinese context. These authors argue that the future of the pillars that saw the birth and growth of microfinancing - empowerment and poverty alleviation, is seemingly bleak. The financial sustainability school of thought currently appears dominant in the complex poverty scene. First and foremost, the ideology behind the empowerment paradigm encourages an activist mode of participation in which women and perhaps men to a lesser extent, question, reflect on, and change the social structures in which they find themselves (Mayoux, 1998, Edward and Olsen, 2006, Young, 2010). In contrast the financial sustainability paradigm views empowerment is a means of educating women “..to be compliant and efficient actors within the established structures of an expanding market economy” (Edward and Olsen, 2006, page 36). Originally however the rationale behind the empowerment paradigm was to encourage an activist mode of participation. Therefore

³² For example, Compartamos of Mexico, Equity bank of Kenya, and BRI unit Densa of Indonesia.

to some extent proponents of commercial logic driven microfinancing appear to have distorted the meaning of empowerment.

Further critics point out that the positive results witnessed so far relate more to regular savings by clients and not their access to microcredit as such. In fact the dominance of the financial sustainability paradigm among MFIs has not only led to excessive interest rates but also the exclusion of the very poor, both in market targeting and delivery of services (Schmidt, 2010, Khandakar and Constantine, 2004b). At this stage it is important to note that the extent to which MSE support services can become sustainable (in the conventional break-even sense) while serving the very poor has not been established (Sievers and Vandenberg, 2007, Gibb, 2006b, Edward and Olsen, 2006).

The proponents of the financial sustainability ideology argue that MFIs should adopt a neo-liberal market orientation and compete with mainstream commercial banks that have now introduced financial products targeting low income people (Ngugi, 2009). However one cannot help but wonder whether the once 'un-bankable' have now become so 'bankable' that financial institutions scramble for them! The next section explores briefly how various habituses appear to influence institutionalisation and regulations in microfinancing.

3.3.3 Position-taking behaviour and the regulatory challenge in microfinancing

As the microfinance field approaches maturity, the contestations of dominance between the proponents of either social or commercial logics, appear to become more pronounced. Although both camps may claim to be committed to the original mission of 'fighting poverty', this may be largely a symbolic position aimed at legitimising actor practises. The symbolism arguably permeates actor behaviour across the entire field; for example, actors advocating the social logic favour adoption of a holistic approach to poverty reduction with the simple rationality that credit access is a necessary but not sufficient end in itself. Consequently, bilateral and multilateral donors who promote the social logic of microfinancing are likely to impress upon collaborating MFIs to design programmes that attend to the broad agenda for development, and in particular human capital development, among the poor in developing countries. While in the long-run financial sustainability appears to be encouraged, it is not the overriding principle in pricing microfinance services to the proponents of this school. On the contrary, commercialists favour a minimalist approach to microfinancing, probably expecting a

trickle-down effect for the economic benefits accruing from increased access to money among the poor. In this regard, on-lending practices adopted by affiliate MFIs are more often than not likely to be positioned for financial self-sustenance, a principle which not only serves the self-interests of the MFIs but also a key interest of the capital suppliers.

The institutionalisation of microfinancing practises among various actors appears to be influenced largely by individual actor's habitus embedded within the specific logic at play. This is reflected arguably in the diversity of legal structures adopted by microfinance practitioners. With the genesis of microfinancing anchored in the world of NGOs, it is not surprising that the NGO structure and other semi-formal structural positioning (e.g. SACCOS, ROSCAs, and CBOs) appear favourable to most MFIs advocating for an altruistic approach to social-economic development of the poor. Given an habitus nurtured within a not-for profit environment, these institutional forms pride themselves on unmatched simplicity, flexibility and innovativeness in supplier–client collaborative approach to service delivery, which makes them ideal for microfinancing among the poor. For MFIs and promoters of the commercial agenda to microfinancing, a formal, or towards formal, positioning behaviour informs their legal structural preferences. For example, MFIs targeting private capital markets often establish themselves as private limited liability companies. This is not surprising; because in a sense it is a reflection of a habitus that is congruent with market economics – for profit. Given this scenario it is not surprising that in Kenya, for instance, MFIs are affected by eight different statutes of law³³ (see discussion in chapter two section 2.2.3).

Although the position-taking behaviour displayed by the range of organisational identities adopted by MFIs may be credited partly for innovativeness in the design and delivery of services, it poses a major regulatory challenge. Just as the underlying logics are discordant, so are the ownership and governance principles of the various structural positions. On the one hand are the open-ended membership outfits like SACCOs and CBOs, while on the other are the closed gate institutional types run by boards of private companies. If all actors were to act in 'good faith' in the interest of fighting poverty, governance would not be an issue. Unfortunately the good mission of microfinancing has not been spared by fraudsters.

³³ In Kenya MFIs are registered by eight different statutes of law which include; Non Governmental Organisation Co-ordination Act; Building Societies Act; Trustees Act; Societies Act; Co-operative Societies Act; Companies Act; Banking Act; and The Kenya Post Office Savings Bank Act (Omino, 2005).

Numerous concerns have been raised in various parts of the world about the exploitative behaviour of some actors, for example the Compartamos case³⁴ in Mexico (Schmidt, 2010) and in Kenya, cases of MFIs operating pyramid-like schemes (Central Bank of Kenya, 2007). In addition, in some cases the manner in which loan recovery is administered has drawn accusations of taking a ‘mob-justice’ approach even to the extent of involving police, as though defaulters were criminals [see cases in India and Bangladesh reported in (Young, 2010) and (Smets and Bahre, 2004) respectively]. More importantly the promotion of credit among poor people without sufficient support in knowledge and skills to run profitable businesses arguably amounts to loading the poor with an additional burden – debt. Besides the MFIs, position-taking behaviour is reported also among poor clients. For example in Nepal, subversive practices geared to transgressing MFI’s protocols have been reported (Shakya and Rankin, 2008) among clients. Field interviews undertaken by these authors captured clients’ testimonies of their engagement in loan swapping (repaying debt with debt), ‘illicit investments’, and deliberate evasion of MFIs’ guidelines. Such client activities are likely to be indicative, in the language of Bourdieu (1990), of symbolic violence, directed towards the normative pressure embedded in existing practices in the field of microfinance.

Microfinance regulatory initiatives

Various countries have adopted diverse legal frameworks to address the regulatory challenge of microfinancing. On the one hand are countries which adopt a prudential regulatory system, while on the other hand are those which favour non-prudential regulation. The aim of prudential regulation is twofold; one to avoid the risk of collapse of a country’s financial system and two, to protect the economic interests of small depositors (Christen et al., 2003, Satta, 2004). This is the regulation accorded mainstream commercial banks and deposit-taking MFIs in most developing countries. In contrast, non-prudential regulation is geared to streamlining the conduct of the business of microfinancing. In this regard, the regulations focus on a wide range of issues, for example enabling establishment of MFIs, crime prevention, credit rating,

³⁴ In the mid 1990s, Mexico inflation rate increased to about 100%. Comapartamos, a Mexican MFI, acted prudently and adjusted its interest rates in order to keep its real rate positive. However after a relatively short period the inflation fell to its usual level below 10%, unfortunately Comapartamos did not revise its interest rates accordingly, which consequently lead to a stream of supernormal profits for its initial investors after an IPO in 2007 (Schmidt 2010).

setting guidelines on interest rates and sources of capital, and limitations on foreign ownership, among others (Christen et al., 2003, Omino, 2005).

Where the above regulatory framework has been set up, the uptake rate among MFIs has not been encouraging. According to Satta (2004) in Tanzania as at 2003, there was not a single NGO – based MFI that had come forth to be licensed under the government's newly established prudential framework. A similar experience is observed in Kenya (see discussions in the previous chapter section 2.3.4) where as at the end of 2009 only one microfinance NGO (Faulu Kenya) appeared to be making effort towards getting licensed under the Microfinance Act 2008.

These accounts may be in part a reflection of either lack of will to question the legitimacy and de-institutionalise current structures or a strategic response mechanism to state-led coercive pressure adopted by MFIs. More importantly however, the above accounts demonstrate the apparent position-taking behaviour embedded in the diverse institutional structures in the field of microfinance. Alongside the prudential regulations being introduced are strict supervisory guidelines to be undertaken either by central banks or specially created state departments in the respective countries. With the exception of a few commercially oriented MFIs, the emergent regulatory environment does not appear 'in sync' with either the habitus or the social contexts within which most MFIs operate currently. It is important to note that the choices an MFI makes with regard to structure and nature of practice (i.e. its service portfolio) cannot be isolated from its institutional context, because microfinance actors and their interests are constructed institutionally (Özen and Küskü, 2009).

Away from the theoretical underpinnings of the practice of microfinance, attention turns to empirical investigations of the extent to which the various approaches to microfinancing impact on the poverty situation of the poor. As already stated in chapter one and reflected in discussions in this chapter, evaluators of the impact of microfinancing on poverty apply varied methods and their results are contested. As a reflection of microfinance practice variation and the contending logics (being social and commercial) discussed previously in this chapter, poor MSE owner managers in developing countries find themselves in one of four categories with respect to microcredit and BDS receipt as shown in figure 3 below.

Figure 3: Categorisation of MSE owner-managers on account of access to microcredit and BDS

		Access to microcredit	
		yes	no
Access to BDS	yes	MSEs in receipt of microcredit and BDS (i)	MSEs in receipt of BDS without microcredit (ii)
	no	MSEs in receipt of microcredit without BDS (iii)	MSEs in receipt of neither microcredit nor BDS (iv)

In view of the foregoing and the literature in this and chapter two, this study is motivated to test the following hypotheses;

- H₁: MSEs with no access to either microcredit or BDS perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.
- H₂: MSEs with access to microcredit without BDS perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.
- H₃: MSEs with access to BDS without microcredit perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.
- H₄: MSEs that have access to either microcredit or BDS perform better, on owner-managers' self reported score of performance, compared to MSEs with access to neither microcredit nor BDS.

From a Bourdieusian view, hypotheses H₁, H₃, and H₄ test for the differential effect of access to cultural and/or economic capital on MSE performance. Hypothesis H₂ provides a test on the two competing logics (being social and commercial logics, from a neo-institutional perspective) in the field of microfinance.

In developing countries the poor venture into business initially for survival purposes rather than conscious effort to practice entrepreneurship (Wood, 2006). As a result most MSE owner-managers lack basic business management skills to run their enterprises successfully (Akoten, 2007a). For reason of limited access to information more often than not MSE owner-managers are unlikely to solicit for BDS from MFIs or other sources in the market. MFIs have tended to use a group-based mode of service delivery in the interest of accessing and enhancing the networks of social capital. MFIs practising an integrated approach to microfinancing often offer BDS in-house, with minimal collaboration with experts if any, and as a pre-requisite to microcredit access. Under this arrangement it is unlikely that the quality and delivery of BDS adequately addresses the diverse needs and skills gap among MSE owner-managers, however basic (Boter, 2005, Chi et al., 2008).

It could be argued that in a situation where MSE owner-managers' BDS needs are met, skills are likely to improve and possibly as a result the performance of the enterprise.

Hence;

H₅: Participant MSE owner managers in receipt of BDS that is perceived to be more effectively delivered are more likely to be satisfied with currently supplied BDS, compared to participant MSE owner managers in receipt of less effectively delivered BDS.

H₆: Participant MSE owner managers who are satisfied with currently supplied BDS are more likely to report higher self-rated performance scores for their businesses, compared to participant MSE owner managers who are not satisfied with currently supplied BDS.

3.4 Conclusion

This chapter proposes a theoretical framework that can be used to explain the emergence and the dynamics that mark the development of microfinance practice. Two complementary relational conceptions; Pierre Bourdieu's theory of practice and Neo-institutionalism are put forward. Notably the notions of field, capital, and habitus of Bourdieu are used to outline the various actors and the networks at play in microfinancing. Similarly, neo-institutional conceptions of institutions and logic, legitimacy, and isomorphic and other forces of institutional change are suggested as appropriate to explain structural and technical variations in the practice of microfinance.

The chapter employs the above theoretical framework and related concepts to discuss and provide a critique to literature relating to the genesis, practice, and the logics that influence delivery of not only microcredit but also BDS embedded in various microfinance programmes. Two contending logics, social and commercial, are noted to influence practice variation in the field of microfinance. The practice variations discussed in this chapter demonstrate how innovative MFIs have been in their strategic attempts to institutionalise their practices in the context of MSEs – their target market. Consequently the chapter outlines this study's hypotheses for which methodological considerations and tests are presented in the following chapters.

4.0 Chapter Four: Methodology for the Study

4.1 Introduction

The main objective of this study is to evaluate MSE owner-managers' perceptions of the impact of microcredit and various forms of business development services (BDS) in their association with the performance of their micro and small enterprises (MSEs). This chapter presents a detailed description of the methodology adopted in this study to achieve the above objective.

The chapter begins with an exposition of the various methodologies used in recent studies in the field of microfinance. This is followed by a description of the specific study design chosen. In this section justification of the chosen design as well as exposition of its limitations is provided. The subsequent section discusses the population, the sampling frame and selection of participants. This is followed by a detailed account of data collection tools and procedures. The section also provides a description of the nature of the instruments used to collect data. The last section in this chapter explains the techniques used in analysing data.

4.2 Methodological options in Microfinance Research

In recent years impact assessment has become an increasingly important aspect of development activity as agencies, and particularly micro-credit donors, seek to ensure that their funds are well spent. There is little doubt that MFIs are becoming an important component of strategies to reduce poverty by promoting the development of micro and small enterprises (Hulme, 2000). However knowledge about the achievements of microfinance initiatives remains not only partial but also contestable. As Hulme (2000) further notes, on the one hand are studies arguing that microfinance leads to beneficial economic and social impacts (e.g. Remenyi, 1991; Otero and Rhyne, 1994; Schuler et al., 1997; Khandker, 1998), while on the other hand there are writers who caution against such optimism pointing to the negative impacts that microfinance may have (e.g. Buckley, 1997; Montgomery, 1996; Rogaly, 1996 and Wood and Sharif, 1997). Given this state of affairs, impact assessment of microfinance operations remains an important issue for both academic and development researchers, in general, and to poverty alleviation policy-makers in particular.

This section provides a review of the methodological options for assessing the impact of microfinance services. Before examining the specific methods adopted in recent microfinance research it is important to understand the context of impact assessment in microfinance studies.

4.2.1 Context of microfinance research

Impact assessment studies, unlike routine microfinance program evaluations, focus on the outcomes of microfinance interventions on the livelihoods of clients, rather than the association between institutional inputs and outputs. The main objective of impact assessment studies is to integrate the notions of ‘proving’ impacts and ‘improving’ microfinance interventions (Hulme, 2000). In this regard impact assessment studies are encouraged by both donors and microfinance practitioners so that they can learn what is being achieved and improve the effectiveness and efficiency of their services.

Specifically for donors, impact assessment studies are an avenue for getting more information about program effectiveness than is available from the normal progress reports written by MFIs. Such information can help in meeting the increasing accountability demands of their parent-state authorities and, more specifically, in confronting anti-aid ideologists.

In assessing the impact of microfinance services the choice of conceptual frameworks has tended to focus on three main elements; a model of the impact chain that the impact assessment study is to examine, specification of the unit(s) or levels at which impact is assessed, and the specification of the types of impact that are to be assessed (Hulme, 2000, Schmidt and Kolodinsky, 2007, Wood, 2006). Models of impact chains distinguish between two main schools of thought; the ‘intended beneficiary’ school and the ‘intermediary’ school (Hulme, 2000). Proponents of the intended beneficiary school aim to reach as far down the impact chain as possible to assess the impact of MFI programs on individuals and households. On the contrary, the focus of the intermediary school is mainly on the very beginning of the impact chain, examining the outreach and institutional sustainability of MFIs.

Depending on the school of thought, the unit(s) of assessment in impact assessment studies may be the household (or individuals), the enterprise, microfinance programs, or the broader institutional environment within which relevant MFIs operate. Across these diverse units of assessment, impact may be assessed on either economic variables, such

as income, expenditure, consumption and assets; or socio-political attributes, such as an individual's control over resources and his or her involvement in decision-making at the household or community level.

4.2.2 Impact assessment methodologies

While the impact assessment issue (i.e. what needs to be measured) has been outlined clearly in the literature, the appropriate methods for analysis are not so explicit. At the core of impact assessment studies is the challenge to establish a cause-effect relationship. In this regard impact assessment methods need sufficient evidence for the attribution of specific effects (impacts) to specific causes (microfinance interventions). Assessors use a variety of methods currently none of which can claim supremacy over the others. In general, impact assessment methodologies may fall in either of three broad categories namely; scientific, behavioural, or participatory approaches (Hulme, 2000, Wood, 2006). These approaches are explained next.

Scientific approach

The scientific method seeks to demonstrate a cause-effect relationship in microfinance interventions to the poverty situation facing poor communities around the world. The methodology holds on the premise that effects can be attributed to causes through a systematic experimentation process. For example, a particular stimulus (e.g. micro credit) to a particular object (e.g. a microfinance client) in a rigorously controlled environment is judged to be the cause of the observed effect.

As Hulme (2000) observes, with its roots in the physical sciences, this classical experimental approach is impractical in microfinance impact assessment because of the social nature of the subject matter. In the natural sciences it is possible statistically to prove attribution to an outcome with certainty, but it is not so easy in the behavioural sciences. Wood (2006) encountered the attribution challenge when studying the internal predictors of business performance in small firms. Using a logistic regression the study sought to identify the factors that account for improved performance for small businesses in the UK. The study established that internal factors may explain up to twice as much variance in small business performance as external economic factors. Wood assessed small business performance by measuring return on investment, profits, turnover or number of customers. The parameters used in Wood (2006) were mostly financial in nature. However, it should be noted that financial criteria on their own do

not necessarily adequately cover the diversity and complexity of goals followed by many owner-managers of small firms. Besides profits, other goals pursued by small firms often include survival and business stability. Sometimes owner-managers may even pursue more personal aims related to status and pride (Curran et al., 1997). Such non-quantifiable variables make it difficult to measure business performance in typical impact assessment studies that use the scientific approach.

The most popular methodology used in impact assessment studies currently is quasi-experimental design – a variation of classical experimental setting – designed to suit human activity (Khalily, 2004). Unlike true experiments, quasi-experiments seek to compare the outcomes of an intervention with a simulation of what the outcomes would have been, had there been no intervention. For example in microfinance impact assessment this means ordinarily that borrowers serve as the experimental group while non-borrowers are the control group. In a typical quasi-experimental setting, impact is assessed by making a before - after comparison of a population that received microfinance services and an identical population that did not receive the services.

Whilst the above procedure is the methodology adopted in this study and this may be a major improvement to the scientific method in handling human activity, there are still several challenges to it. For instance given the level of business education, the accuracy and adequacy of borrowers' records or memories may be questionable when interviews or surveys request information from these borrowers. This means that effects that may be attributed to access to micro credit may have little to do with borrowing; for instance they may have more to do with enforced savings that generally precede the ability to borrow. This study does not attempt to audit the accuracy of MSE business records; rather it assesses the impact of BDS and microcredit on MSE performance based on owner-managers' perceptions of reality in their businesses.

It is important to note that sometimes the poor can be tempted to borrow informally from multiple sources and, as such, may not be in a position to account for the use of specific funds. As such, impact assessment studies using experimentation, in general are likely to face problems of sample selection bias and misspecification of underlying causal relationships (Khalily, 2004). For instance, selection bias may occur for several reasons, including incongruence between treatment and control groups used, the Hawthorne effect resulting from short-term positive response from the treatment group,

and inseparability of study elements in both groups within the same locality. Sometimes biases may occur as a result of fungibility of the treatment (e.g., when a loan is transferred from a borrower to someone else or when the loan is not used in the planned way (Khalily, 2004).

While fungibility has been acknowledged as a major drawback in impact assessment studies (see Khalily, 2004), some of the recent researchers in this field do not hold this position. For example, Hulme (2000) observes that for studies looking at the community or the household economic portfolio, fungibility is not a problem for the researcher, but it is a vital strategy for the client. The most important returns on investment could be on consumption (in terms of developing human capital through school fees and doctors' bills, or buying food at a time of crisis when credit terms from traders may be extremely high). From this perspective the assessor needs to appreciate the fact that microenterprises are firms whose inputs and outputs are not only difficult to identify but which also cannot be measured precisely. The assessor should therefore not attempt to control for fungibility (to prove impact) but rather recognise that fungibility may be a process to be encouraged as a way to improve the assessment. It is acknowledged that loan fungibility is a problem, especially for studies focusing on the enterprise (Hulme, 2000, Khalily, 2004), as is the case in this study. However the objective of this study is not to control for fungibility with the aim of 'proving' impact; rather the aim here is to test for the existence of an association between use of BDS and/or microcredit and performance of MSE owner-managers' businesses, irrespective of the number of credit sources used or the individual or household use to which borrowed funds might be put.

The misspecification of underlying causal relationships often arises due to the assumption that causality is unidirectional. While this may hold for the physical sciences, it is unlikely to be the case for interventions involving human activity. There are cases where path modelling, a unidirectional technique, is used to measure the extent and strength of causal relationships. For instance, Schmidt and Kolodinsky (2007) while examining factors that lead or mediate client success in a microenterprise development program, used path analysis to examine the relationships between microfinance client characteristics, program activities, and impacts. The study used a reflexive control design in which participant outcomes after microenterprise development training were compared to the baseline collected at intake before receiving

microfinance services. The findings indicate that program participants' experience increased income, reduced public assistance, job creation, and asset development. At face value these findings may seem robust; however one needs to understand the limitations of path analysis, the technique used to generate the results. Although path analysis can evaluate causal hypotheses, and in some (restricted) situations can test between two or more causal hypotheses, it cannot establish the direction of causality. We need to understand that path analysis is mostly useful when we already have a clear hypothesis to test, or a small number of hypotheses. The technique has little use at the exploratory stage of research. Besides path analysis can be used only in testing unidirectional relationships.

In microfinance programs, as is the case with most forms of human activity, causation may also run from impact back to the intervention. Mosley (1997) illustrated this with an example of a microfinance program where field staff put pressure on a borrower to repay a loan. The strategy was a success in the short term because the borrower sold assets (machinery, land) to repay the loan, however it should be noted that such pressure does not reduce the probability of non-repayment in the longer term. Selling productive assets is hardly the way to improve future enterprise performance. Hulme (2000) concurs with this view and cautions that such reverse causation need not necessarily be negative, and from the perspective of more process-oriented analytical frameworks, is essential if MFI programs and their staff are to continually learn from their experience and improve (rather than prove) their impact.

Behavioural approach

The main feature of the behavioural approach to impact assessment is an inductive approach. The behavioural method does not try to prove impact within statistical limits of probability. Rather, the method seeks to provide an interpretation of the processes involved in the intervention and of the impacts that have a high level of plausibility. The behavioural approach recognises that there are usually different, and often conflicting, accounts of what has happened and what has been achieved by a microfinance program. Hulme (2000) acknowledges that impact assessment studies usually cannot demonstrate a causal link as they are not able to generate a clear cut control group without microfinance program influence. Instead, causality is inferred from the information about the causal chain collected from intended beneficiaries and key informants, and by comparisons with data from secondary sources about changes in out-of-program areas

(Schmidt and Kolodinsky, 2007, Wood, 2006). Problems also arise because often the terms ‘survey’ and ‘case study’ are applied to work which has been done in an *ad hoc* manner and does not achieve minimum professional standards in terms of sample or informant selection and the rigour of data collection and analysis. This is most likely the case with impact assessment studies that base data collection only in program areas that are performing well, survey clients with high loan repayment rates, and/or infer that the data collected in one area apply to all clients without explaining or testing this assumption. This study is designed with these limitations in mind as discussed in the next section.

Participatory learning and action approach

The proponents of participatory learning and action (see Hulme, 2000) believe that there are multiple realities in microfinance interventions. They emphasise the fact that before any impact assessment is undertaken, the individuals concerned must ask themselves ‘whose reality is most important?’. It could be argued that the answer to this question is that the perceived reality of the poor is supreme if microfinance is about empowering the poor. As a result the first step towards empowerment is then to ensure that the poor take the lead in problem identification and analysis and knowledge creation (Hulme, 2000).

The accuracy and reliability of participatory methods varies widely, just like scientific surveys. The reliability of the results depends largely not only on the motivation and skills of facilitators, but also on those being investigated and the ways in which their perceptions of the research process are addressed (Mayoux, 1997). From a scientific perspective, impact assessment studies have had difficulties in conceptualising impact, to the extent of being able to identify common variables and measures of impact that may permit comparison of results. One of the outstanding features of the participatory learning and action method is its involvement of program participants in all aspects of microfinance impact assessments. Being qualitatively oriented, the technique encourages participation of program participants in design, analysis and interpretation of assessment results (Hulme, 2000). While involvement of program participants is in all respects important, one needs to be aware of the problem of respondents’ motivation and representation. Beneficiaries may be the easiest group to approach because they may generally feel obliged to take part in surveys hoping to improve the service quality of their microfinance programs.

Hulme (2000) observes that motivation is a more challenging issue. This is because, ideally, control groups have no connection with a microfinance program and as such they have no incentive to cooperate in a research exercise. In many cases, however, the amusement value of being interviewed could prove to be an important psychological reward. The problems of response sufficiency increase significantly if longitudinal data are collected, as second and third interviews have much less amusement value and response rates may drop below acceptable limits, which may render the validity of participatory learning and action studies questionable.

In summary the desire of MFIs, donors and impact assessors to produce results that provide evidence of microfinance impact at high levels of statistical confidence has often driven the design of impact assessment studies. As a result Hulme (2000) cautions against the danger of exaggerated extrapolation of impact assessment results from small sample surveys. In this thesis it is advocated that impact assessment effectiveness should not be equated with the level of causality that a study can claim. While all studies must pursue rigour, whether the work is quantitative or qualitative, the effectiveness of an impact assessment methodology will depend on how well it achieves a fit between its objectives, techniques, results and most importantly its context. There may not be an optimal methodology for impact assessment in the field of microfinance. Combining the aspects of scientific, behavioural, and the participatory learning and action approaches may be the most appropriate approach.

4.3. Study Design

This study takes a Q-Squared (mixed methods) approach to investigating the hypotheses. As a result two samples of participants are used. The main sample (mostly used for quantitative analyses) consists of MSE owner-managers while the second is made up of independent researchers, microfinance and BDS agency representatives. Although the study adopts a predominantly quantitative orientation, qualitative data is collected (mainly from participants in the second sample) in order to triangulate the evidence of perceived impact of the use of BDS and microcredit on the growth and performance of MSEs. With regard to the quantitative aspects of the study, the focus is on the scientific method and it specifically adopts a quasi-experimental research design (see Creswell, 2003, Cooper and Schindler, 2006, Shadish et al., 2002). Participants are classified into four groups (see Figure 4 below) on the basis of their use of BDS and microcredit so that control groups can be created.

Figure 4: Participant categories

		Use of microcredit	
		<i>Microcredit user</i>	<i>Not a microcredit user</i>
Use of BDS	<i>BDS user</i>	c1	c3
	<i>Not a BDS user</i>	c2	c4

Category one (c1) is made up of those MSE owner-managers who use both microcredit and BDS. This is arguably the cohort of MSE owner managers who appear to benefit from the social logic driven mode of microfinancing. The second category (c2) consists of MSE owner-managers who use microcredit without BDS, being beneficiaries (by choice or otherwise) of commercial logic driven microfinancing. The third category (c3) comprises MSE owner-managers who use BDS but do not use microcredit. These are participant MSE owner managers who only have access to cultural capital but not economic capital. The fourth category (c4) represents MSE owner-managers who do not use either microcredit or BDS, being users of neither social nor commercial logic driven form of microfinancing. While participant MSE owner-managers in categories c1, c2 and c3 comprise the quasi-experimental groups, participant MSE owner-managers in category c4 represent the control group. In the absence of a true baseline for all participant MSE owner-manager businesses, an *ex post facto* procedure (Cooper and Schindler, 2006) is employed in which only one set of observations is taken across all participants. A visual model of the quasi-experimental research design appears on Figure 5 below.

The study employs haphazard sampling in which participant MSE owner managers are selected in no particular predetermined sequence. Participants are then placed into the respective experimental categories based upon the characteristics of their microcredit and BDS uptake (see Figure 4). In testing Hypotheses 1 – 4, which are derived from Research Question 4, multiple regression is applied to observations from the appropriate experimental categories. In this way perceived MSE performance is tested as a function

of attributes of participant category cohorts and demographic characteristics as informed by the literature (see chapter two).

Thus in testing H1, which posits that MSEs without microcredit or BDS perform more poorly compared to MSEs that have access to both microcredit and BDS, owner-managers' self reported performance score is regressed on indicator variables for participant categories c1 and c4, and control variables. In testing H2, which posits that MSEs with access to microcredit without BDS perform more poorly compared to MSEs that have access to both microcredit and BDS owner-managers' self reported performance score is regressed on indicator variables for participant categories c1 and c2 and control variables. In testing H3, which posits that MSEs with access to BDS without microcredit perform more poorly compared to MSEs that have access to both, owner-managers' self reported performance score is regressed on indicator variables for participant categories c1 and c3 and control variables. In testing H4, which posits that MSEs that have access to either microcredit or BDS perform better compared to MSEs with access to neither microcredit nor BDS, owner-managers' self reported performance score is regressed on indicator variables for participant categories c1, c2, c3 and c4 and control variables.

Figure 5: Visual representation of experimental design

R	X_1	O_1	$E_1 = (O_1 - O_4)$
R	X_2	O_2	$E_{21} = (O_2 - O_4)$
			$E_{22} = E_{21} - E_1^{35a}$
R	X_3	O_3	$E_{31} = (O_3 - O_4)$
			$E_{32} = E_{31} - E_1^{35b}$
R		O_4	

Legend:

R = random selection of participants and then assignment of participant MSE owner-managers across the four participant categories; X_1 = use of both microcredit and BDS; X_2 = use of microcredit; X_3 = use of BDS; O_1 = owner-manager self-rated performance scores for c1 MSEs; O_2 = owner-manager self-rated performance scores for c2 MSEs; O_3 = owner-manager self-rated performance scores for c3 MSEs; O_4 = owner-manager self-rated performance scores for c4 MSEs; E_1 = perceived effect of X_1 ; E_{21} = perceived effect of X_2 ; E_{22} = perceived effect of X_2 , less the effect of X_1 ; E_{31} = perceived effect of X_3 ; E_{32} = perceived effect of X_3 less the effect of X_1 .

Whereas most of the previous impact assessment studies have used a quasi-experimental design to assess the impact of microcredit at either the institutional or program level (Hashemi et al., 1996, Mustafa et al., 1996, Pitt and Khandker, 1998,

³⁵_a & _b : E_{22} and E_{32} measure the perceived effect of use of MFI credit without BDS and use of BDS without MFI credit, respectively. Due to sample size limitations these parameters are only tested for significance on a univariate basis as later reported in chapter six.

Coleman, 1999, Dunn and Arbuckle, 2001), this study seeks to assess impact at the microenterprise-level. It is argued here that the enterprise or rather the MSE is the engine of economic empowerment in the fight against poverty (Arch, 2005). With their focus on outreach and institutional sustainability (Hulme, 2000, Khalily, 2004), it is likely that institutional-level impact assessments provide an aggregate picture of microfinance impact with partial (if any) account of how access to BDS or microcredit affects the lives of ordinary people. On the contrary, the MSE may be seen as the only major economic entity that has direct relevance to the individual and, by extension, the household. While targeting the MSE and its performance rather than program outcomes, this study provides an opportunity to directly and specifically assess the impact of BDS and microcredit not only on the user, but also from a user's perspective.

Most studies that examine impact limit it to microcredit only (e.g. Dunn and Arberkle, 2001; Khandker, 2005; Goldberg, 2005; Hartarska and Nadolnyak, 2008), with a few extending it to other complementary services like training (for example, Sievers and Vandenberg, 2007). This study examines the impact of not only microcredit but also BDS on the performance of MSEs. The study assesses the possibility of synergistic benefits that might accrue to MSEs that use both services. In this way, the study represents an attempt to assess the impact of both BDS and microcredit empirically from a user's perspective rather than that of the provider of either or both services, although qualitative interviews with MFI institution representatives do take place also.

4.3.1 Justification for study design

Behavioural and participatory learning and action approaches to impact assessment by their nature require involvement and cooperation of multiple parties to be successful. Besides the complex procedures involved in these approaches, it is expected that any study adopting either approach has to be longitudinal in its orientation. Adopting a longitudinal approach is arguably inappropriate for this study for a number of reasons.

Firstly, a longitudinal approach is impractical due to time and resource constraints, in that it would require a significant time lag between the initial and subsequent measurement of treatment effects. Secondly, a longitudinal design by its nature demands a before-after experimental setting, which is likely to introduce several validity threats (e.g. testing, instrumentation, maturation, and mortality) to the study. Thirdly, involvement of multiple parties (as is the case for behavioural and participatory learning

and action designs), although rich in ideas, runs the risk of breeding conflicts of interest besides breaching the bounds of anonymity, a key requirement for University Human Ethics Research Committee approval. Lastly, the accuracy of data gathered through structured interviews (as is the case in this study) depends largely on trust between the researcher and participants. While it could be straightforward to secure trust for the initial interview with a participant, this may prove difficult with subsequent interviews, especially where multiple parties are involved. Subsequent interview sessions have the potential to raise suspicion on the part of the participants as to any vested interests of the researcher, which is likely to confound study results. This is so because it would be obvious to the participants that anonymity does not exist, more of the participants' time would be requested, plus there may be heightened fear that longitudinal information may be followed up by authorities (e.g. tax, occupational health and safety, and labour rights). In light of these reasons, the cross-sectional approach adopted by this study is the most appropriate.

As seen in the previous section, quasi-experimental design has been commonly preferred when assessing the impact of microfinance (see Morduch, 1999, Khalily, 2004). Compared to the other two approaches, behavioural and participatory learning and action, the quasi-experimental design is the most economical yet effective in addressing the primary objective of this study. With the random selection of and subsequent placement of participants to the respective categories on account of their use or otherwise of microcredit and/or BDS, the design enables comparison of MSEs' performance across the four participant categories.

As noted above (in section 4.2.2), impact assessment studies in microfinance face three key limitations especially where an experimental design is used; namely selection bias, misspecification of underlying causal relationships and fungibility of credit. First to minimise the effect of selection bias as well as other relevant threats to internal validity [e.g. history, maturation, testing, and instrumentation (Cooper and Schindler, 2006)], participant MSE owner-managers are selected at random with haphazard sampling to maximise the possibility of equivalence of all four required categories. It is only after this random approach to potential participants and their agreement to participate that effort is devoted to place participant MSE owner-managers to the relevant participant category. In addition, as explained later in this chapter, all participants in the MSE owner-manager interviews are owner-managers of MSEs that have no more than ten

employees. In this regard therefore all participants' businesses are similar in size. Although there may be slight variation in size and/or nature of economic activity, these variations can reasonably be expected to be randomly distributed across all participant groups, irrespective of the use or non-use of either microcredit or BDS. In this way the study design effectively minimises the effect of most of the threats to internal validity including selection bias.

Second, the potential for misspecification of the direction of the causal relationship (i.e. use of both BDS and microcredit leads to improved MSE performance) is acknowledged. It is plausible that owner-managers of MSEs that are doing well are likely to seek BDS and credit because they can better afford to and in order to further improve their fortunes. It is important to note that with a highly equivalent control group, the reverse direction of influence is not a major problem because the phenomenon (if present) is likely to occur randomly in the population. Notwithstanding, in this study the emphasis is not on 'proving' impact, which cannot be accomplished other than in highly controlled experimental conditions. Rather it is in testing for a positive association between use of both BDS and microcredit, and performance of the participant owner managers' enterprises.

Third while fungibility of credit is acknowledged, its presence may not necessarily confound the relationship under investigation in this study. This is so because while most of the other impact assessment studies focus on a particular program or institution(s) (e.g. Zohir and Martin, 2004), this study does not limit itself in such a way. The emphasis here is on impact of the use of BDS and microcredit on MSE performance using data from users of multiple providers of either. This industry-wide approach is consistent with the methodology adopted by Hartarska and Nadolnyak, (2008), who examined the impact of microfinance in Bosnia and Herzegovina. Further, in the interview protocol, attempts are made to not only capture information about multiple sources of credit but also to specify the motive for borrowing (see Annex 2). This information is then used to control for fungibility of credit in the multivariate tests of hypotheses reported in later chapters of this study. Of course use of such control variables is dependent on honest answers being received to the interview questions, but this is true of any such research. However the assured and unambiguous anonymity offered to participants (no names were requested) and the fact that the author is independent of any MFI or BDS provider should assist with eliciting truthful responses.

In summary with random selection of completely anonymous participants, classification of participants into the respective cells until the targeted number is reached for each, the creation of a control group, coupled with the control for fungibility of credit in multivariate testing, the design of this study keeps the effects of the above limitations at a minimum. In so doing the design not only helps to elicit the participant MSE owner-managers' perceptions of the impact of the use of BDS and/or microcredit, but also is likely to provide evidence of the contribution of BDS and microcredit to MSE performance, jointly and singly.

4.4 Study site and Population

The study is cast in Kenya, a country in the Sub-Saharan region of Africa. Kenya portrays a typical developing economy with MSEs making up 18 per cent of the country's GDP and employing up to 72 per cent of the work force (Ministry of Planning and National Development – Kenya, 2006). Kenya is host also to one of the most established and fastest growing MFIs in Africa, Equity bank. This bank was the winner of the International Finance Corporation's (IFC) award for the most sustainable bank in Africa and the Middle East, 2009 (Larsen, 2009). This study recruits as participants MSE owner-managers in four purposively selected cities in Kenya, Nairobi, Nakuru, Eldoret, and Machakos (see Annex 1 for a study site map) and their environs. Nairobi is chosen because it is the metropolitan capital and represents a wide range of MSE activity. By contrast, the other three sites capture MSEs more likely to be associated with either agriculture (a key pillar of Kenya's economy) or other semi-urban types of enterprises. Additionally these sites also represent a critical mass of Kenya's ethnic diversity. Discussion as to the suitability of Kenya as a study site is found in chapter one (see section 1.2) of this study.

The primary objective of this study is to test whether integration of microcredit with BDS is associated with the performance of MSEs as perceived by MSE owner-managers. The decision to use or not to use either credit or BDS is the prerogative of the individual owner-managers in their respective MSEs, presuming both are accessible. It is noted that in the developing world and especially for countries within the Sub-Saharan Africa region, the size threshold commonly used for MSEs is ten employees (see Masakure et al., 2009). As a result therefore this study's sampling frame comprises

owner-managers of MSEs in Kenya with not more than ten employees including the owner manager.

Unit of analysis

The unit of observation for the main analysis in this study is the perceptions of owner-managers of micro and small enterprises as economic entities. Interviews with all four categories of participants are intended to track the importance of their decisions (individually as owner-managers) about the use of microcredit and/or BDS in the performance of their respective MSEs.

4.5 Recruitment of Participants

This study entails two separate samples. The first sample consists of a total of 160 randomly selected (using haphazard sampling) MSE owner-managers recruited from across the four study sites described above. This is the main sample used in testing the hypotheses in this study. Initially, efforts were made to involve MFIs in recruiting participants, especially participant MSEs owner-managers in receipt of microcredit with or without BDS; this was however not fruitful, perhaps a blessing in disguise in that the author could claim complete independence of MFI and BDS providers. The managements of MFIs approached were reluctant to enlist their clients in an exercise that would pitch their MFI directly against their competitors. As a result it proved impractical to construct a comprehensive sampling frame of MFI members. This difficulty was worsened by the absence of a list or database of MSE owner-managers in Kenya. This meant that systematic random sampling could not be employed in this study and hence convenience sampling was used to recruit participants.

What is meant by convenience sampling here is that upon visiting any one of the study sites, the author would enter a market centre and randomly interview MSE owner-managers on a voluntary basis³⁶, paying attention to the diversity of their business activities. Before proceeding with the interviews, potential participants were requested to answer two screening questions about whether they were in receipt of BDS and /or credit, which allowed potential participants to be stratified on the basis of their use of credit and/or BDS. In addition the information on the relative maturity of the MFI to

³⁶ As a result there is potential bias in that only willing participants are included in the study. However the author is not aware of any reason to believe that non-participants are more likely to be over-represented in any of the four categories examined or to have particular characteristics that might lead to bias in the results reported.

which participants belonged was elicited. Their responses to these questions then enabled the interviewer to correctly classify the recruits to the respective participant categories. In this way potential misspecification and threats to internal validity, for example, sample selection bias and effects of history were minimised. In general 40 participant MSE owner-managers were targeted for each of the four participant categories. The entire sample of 160 MSE owner-managers was distributed proportionately across the four sites.

The second sample comprises qualitative interviews with 19 purposively selected willing participants. These participants were constituted as follows; eight representatives of BDS firms targeting MSEs, nine representatives of MFIs, and two researchers in private practice with an interest in the MSE sector in Kenya. The purpose of selecting this sample was to triangulate³⁷ the views of MSE owner-managers with those of other stakeholders or experts with regard to the usefulness of both BDS and microcredit in the operations of MSE enterprises.

4.6 Data collection - Tools and Procedures

In order to achieve the objectives of this study, data are collected through protocol-guided interviews with MSE owner managers, representatives of MFIs and BDS agencies and independent researchers in the MSE sector in Kenya. With regard to the main sample for the study (MSE owner-managers), a semi-structured interview protocol (see Annex 2) is the instrument used to gather data. A similarly structured set of interview protocols (see Annexes 3 and 4) is used in facilitating interviews with representatives of both MFIs and BDS agencies, whereas the interview guide used in collecting the views of independent researchers is open-ended (see Annex 5).

All three instruments are subjected to a peer review before being administered. Peer reviewing is conducted for two main reasons; one being validation of the instrument and the other to minimise the internal validity threat of instrumentation. Five peer reviewers from diverse disciplines were used for the peer review. One of the peer reviewers is an economist and researcher from a leading multi-sectoral research institution in Kenya, while the others include two country directors with international NGOs (with interest in

³⁷ Triangulation is a term used to describe the combination of qualitative and quantitative data collection methods in order to improve the quality of research (Cooper and Schindler, 2006). It is also a process of collating evidence from different sources with the aim of building a coherent justification for a research theme (Creswell, 2003).

microfinance) in Uganda and the southern Sudan, an information systems manager with a multinational company in Kenya, and a business management professor from an Australian university. Peer reviewers' comments on the suitability of the research instruments were used to revise the instruments before commencing field work. A notable modification of one of the instruments (the MSE owner-manager interview protocol) was the use of a five-point rather than a four-point Likert scale. None of the peer reviewers is included among the study participants during actual data collection.

The MSE owner-managers' interview protocol is divided into five parts, identified as Parts A to E. The scales used in measuring the various concepts in this instrument are designed by the author guided by literature in the field of microfinance. Whereas all participant owner-managers are requested to provide data on all variables included in Parts A, D, and E, variables included in parts B and C relate only to participant owner-managers in receipt of microcredit and BDS respectively. Part (A) relates to information on the general profile of the participant MSE owner-managers' enterprise. The variables included here range from nature of business activity, ownership and size, to the perceived state of business establishment, among others. Most of the variables in this Part are used as control variables in testing the main hypotheses of this study.

Part B consists of questions intended to collect information on participant MSE owner-managers' perceptions on use of microcredit and their assessment of the terms and conditions surrounding its delivery. Examples of variables included here are source and type of business credit, motive for accessing credit, and interest rate charged. This Part also addresses users' perceptions on how microcredit is impacting on their businesses. Likewise questions in Part C capture issues relating to use of BDS. Among the variables included here are source and type of BDS used, mode of BDS delivery, BDS fees, benefits perceived as accruing from using BDS, and users' satisfaction with BDS delivery. The data from these two Parts of the instrument are used to test for the study's hypotheses. This means that differences in participant MSE owner-managers' self-rated business performance is arguably explained by the extent of their use of either BDS and/or microcredit.

Part D contains questions addressing the dependent variable for the study i.e. MSE performance. The construct MSE performance was measured using a five point Likert-type scale consisting of six perception-based variables including; sales growth,

profitability, business savings and cash flow, and levels of stocks or service orders. The perception-based MSE performance measure used here is in part consistent with previous studies (for example, King-Kauanui et al., 2006). During interviews, participants were advised to base their assessment of the performance of their enterprises on their experience in the last one to two years.

Part E is the last section of the MSE owner-managers' interview protocol. This Part of the instrument was intended to be used to gather information on the personal attributes or demographics of the participant MSE owner-managers. Some of the variables captured here include; gender and age of participant MSE owner-managers, level of education, indicators of personal wealth (e.g. income, ownership of a house or car), and years of experience in business. Some of the variables in this section, for example education, gender, age and experience in business, are used as control variables in this study. Most of these variables have been previously used in MSE performance studies (see Masakure et al., 2009, Adegbite et al., 2007, Akoten, 2007a) and as such are expected to help in explaining variations in self- performance ratings of participants' businesses.

The other interview protocols used in collecting views from representatives of MFIs and BDS agencies on the usefulness of microcredit and BDS among MSEs were partially open-ended. The variables covered in each of the two protocols include; nature of services offered by the representative's institution, target market, terms and conditions of service delivery, service benefits to MSEs, and challenges faced in serving MSEs. The interview guide for gathering private researchers' views on the subject matter of this study generally focused on the dynamics of the MSE sector in Kenya. In particular, these expert researchers' views on the perceived contribution of microcredit and BDS to the performance of MSEs in Kenya were sought.

Interviews with MSE owner managers were undertaken with the assistance of three assistants with a business knowledge background. Two of the assistants were university graduates while the other had a tertiary diploma certificate. Before deployment the assistants were trained on how to administer the instrument through personal structured interviews. Assistants were used to minimise the time period over which owner-manager interview data was collected and to reduce safety risks with the author being

from a different area³⁸. Since all travelling within a city was on foot and since a variety of business types were desired, more than one interviewer was needed to minimise the time period across which the data was collected and also to ensure that the economic environment remained relatively constant with no changes in interest rates or agricultural seasons. Additionally, it was important for reasons of cost to limit the time the author of this thesis spent in the various locations.

During the training, the main objective of the study was not revealed to the assistants. This was done to not only avoid assistants preempting answers to questions during interviews and in a way to make the interview process blind, but also to control for effects of instrumentation. Assistants also conducted a mock interview session in the presence of the author. Results from mock interviews are not included in data analyses. Except for interviews with MFI and BDS agency representatives, and independent researchers, where consent is sought in written form, consent for interviews with MSE owner-managers was verbal and completely anonymous, consistent with the Human Research Ethics approval.

Interviews with MSE owner-managers were conducted within the business premises of the individual participants in order to closely match their perceptions to the specific business situations and therefore minimise the effects of history to the phenomena under investigation. Given the setting, disruptions during interviews could not be avoided; the effects of maturation, e.g. fatigue, were kept at minimum by keeping the interview as short and focused as possible. Most of the interviews with MSE owner-managers lasted between thirty to forty-five minutes, while the other interviews were limited to a maximum period of one hour. No incentives of any kind were used to secure participation in any of the interviews. The author supervised the entire itinerary of field interviews for MSE owner-managers. At the end of each field day, discussions were held with each assistant to edit field notes. Field work was conducted over a two and half month period spanning from January to mid-March 2009.

³⁸ At the time of data collection, some parts of Kenya had become somewhat unstable after the election held in December 2007. It was a condition of Human Research Ethics Committee approval that certain of the more dangerous areas (e.g. Kisumu city which was initially among proposed study sites) were not visited and that steps were undertaken to minimise risks.

4.7 Techniques for Data analysis and Presentation

In order to test the hypotheses posed in this study a variety of statistical techniques are used to analyse data. Analysis of scale-based perception and more categorical demographic quantitative data gathered through interviews with MSE owner-managers includes both univariate and multivariate techniques. Theoretical concepts introduced in chapter three are applied to augment explanations to results of various analyses. The statistical software (SPSS) version 17 is used to perform quantitative analysis.

Univariate analysis entails use of descriptive statistics and cross tabulations in exploring the properties of all key explanatory variables (in raw form) in the study. In most cases results are presented in tables and pair-wise comparisons are made between participant MSE owner-managers in the treatment and control groups. The significance or otherwise of the differences between participant categories across most independent variables is tested using both parametric (for continuous variables) as well as non-parametric tests (for categorical variables).

Content analysis (using NVivo software version 8) is performed on the qualitative transcripts resulting from interviews with both MFI and BDS agency representatives and the independent researchers. For triangulation purposes, results from content analysis are presented concurrently with the results of univariate analysis of the MSE owner-managers' views to provide deeper insights and potential explanations to results. Additionally results of univariate analysis are used to identify variables that need to be controlled for in the subsequent multivariate analysis where the main hypotheses for this study are tested.

Multivariate analysis techniques, logistic and ordinary least squares (OLS) regression, are used to test the main hypotheses of the study as posed in chapter three. For example the logistic regression technique (used for dichotomous dependent variables) is used to test for the odds of continuing to use microcredit and of reporting satisfaction with BDS among participant MSE owner-managers. With regard to the question on the usefulness of microcredit, participant MSE owner-managers' intention to continue using microcredit is the dependent variable whereas satisfaction with currently supplied BDS is the dependent variable used in testing for the perceived usefulness of BDS (Hypothesis 5) among participant MSE owner-managers. In both cases the explanatory variables used relate to the terms and conditions surrounding access to either service.

For example participant MSE owner-managers' intention to continue using MFI sourced credit is expected to be explained by type of loan, loan term, the motive for seeking the loan, and loan interest rate among others (Roslan and Karim, 2009, see Godquin, 2004).

With regard to participant MSE owner-managers' likelihood of satisfaction with currently supplied BDS, the explanatory variables used include the source and type of BDS, its mode of delivery, perceived competence of BDS agency staff, and the MSE owner-manager's level of education among others (Faoite et al., 2004, Kotey and Sheridan, 2004). Justification for and details of measurement for all variables included in the multivariate analyses are presented in the relevant subsequent chapters which report the results of data analysis.

The OLS regression technique is used to test for the extent of covariance between receipt of microcredit and/or BDS, or neither, and MSEs' performance (Hypotheses 1 through 4). The dependent variable in these tests is MSE performance, which is a composite measure derived from participant MSE owner-managers' self-rated business performance on six financial attributes as indicated in the previous section (4.6). Before computing the MSE performance score, first the reliability of the five indicators used to measure MSE performance is assessed using Cronbach's Alpha test. Secondly, raw scores across the five attributes underlying performance are normalised (using Blom's formula). Normalisation is a re-scaling processes whereby Likert type ordinal scores are transformed into scores with approximate standard normal distribution properties i.e. resulting scores have a mean close to zero and standard deviation as close to one as possible (Gow, 2010). This means that the resultant MSE performance scores assume the attributes of standard continuous variables and are therefore more amenable to the least squares regression procedure unlike the Likert type ordinal scores.

In testing for MSE performance differentials across the four participant categories (as reflected in Hypotheses 1 to 4), consistent with the literature (see Masakure et al., 2009), several control variables are used; namely age, gender, owner-managers' education level and business affiliated family background, type of business activity, and how well established the business is. The extent of a business' establishment is a proxy for firm size, a factor that is commonly used (see Jayawarna et al., 2007, Kotey and Sheridan, 2004) in MSE performance studies. Controlling for other extraneous variables is crucial while testing for the impact of use of microcredit and or BDS on MSE

performance. This is because the beta coefficient in respect of each independent variable entered into the OLS model reflects singly the expected influence of the variable on MSE performance. In such a comparative manner it is possible to single out the most significant contributor to MSE performance while at the same time testing for the extent to which the entire model explains MSE performance.

The one-way analysis of variance (ANOVA) technique is used in testing for Hypothesis 6, assessing the fit between currently supplied BDS and MSE owner-managers' BDS needs. In this case the test is whether there is a significant difference in mean performance scores (the dependent variable) between participant MSE owner-managers who are satisfied with current BDS and those who are not satisfied (the factor).

In addition the sample size of 160 MSE owner-managers participating in this study is considered adequate for correlation-based multivariate analysis. In testing for all the six hypotheses, collinearity is assessed through bivariate Pearson's correlation analysis. The decision rule in hypotheses tests in this study follows the conventional 95 per cent threshold.

4.8 Conclusion

This chapter provides a description of the methodology employed in investigating the main research question for this study; that is to assess the association of microcredit and BDS with the owner-managers' self-reported performance of their micro and small enterprises. The chapter notes that recent studies assessing the impact of microfinance have used different research designs, which may be classified into three categories; scientific, behavioural, and participatory action learning. Unlike the scientific approach, which is quantitatively oriented, the two other approaches are generally qualitative in nature. This study adopts a mixed method approach, triangulating quantitative data gathered from participant MSE owner-managers with results of qualitative interviews with MFI and BDS representatives and independent researchers working in the area. Specifically the study adopts a quasi-experimental design, with use of a control group and having an *ex post facto* orientation.

The sample analysed quantitatively consists of 160 haphazardly sampled participant MSE owner-managers operating from within four purposively selected cities in Kenya. That is, the unit of observation and analysis relates to MSEs, not households or

individuals as is the case with most MFI impact studies, even though it is the perceptions of individuals intimately involved with these MSEs that are sought. The participants fall into four categories in respect of their use or non-use of microcredit and/ or BDS. There are approximately forty participants in each of the participant categories. Observations, that is self-reported MSE owner-manager performance ratings, from participant MSE owner-managers who do not use either microcredit or BDS are used for control purposes. The main analysis directed to achieving the purpose of this study is to compare these non-users with observations from their counterparts in each of the other three categories in testing for the impact of use of microcredit and/or BDS on the performance of MSEs, where performance is self-rated. Other analyses are conducted using, for instance, participant profile information.

In the chapter it is noted that quantitative data from MSE owner-managers is gathered through a semi-structured interview protocol while views from MFI and BDS representatives and independent researchers are collected through open-ended interviews. All data collection instruments are validated by way of peer review with experts. As noted in this chapter, both univariate and multivariate analyses are performed on the quantitative data with the aid of SPSS and NVivo software is used for the qualitative data. Detailed reporting of the sample profile and results of data analysis relating to the research questions and tests of hypotheses for this study appear in the next three chapters.

5.0 Chapter Five: Sample Description

5.1 Introduction

As explained in the previous chapter, this study recruited participants from four different study sites³⁹ in Kenya namely; Nairobi, Nakuru, Machakos and Eldoret. Although these study sites are located in varied agro-ecological zones, participants who are owners of micro and small enterprises (MSEs) are generally likely to possess similar socio-economic characteristics. With the aim of investigating the possible association of access to business development services (BDS) and microcredit with enterprise performance, participants were categorised into four groups as explained in chapter four (see section 4.3). Participant classification was based on their receipt or not of microcredit and/or the consuming of business development services (BDS).

In total the sample size (N) is 160 MSE owner-managers. The first category (c1) comprises MSE owner-managers with access to microcredit as well as BDS. There are 42 participants in this category. The second category (c2) consists of 38 MSE owner-managers in receipt of microcredit but not BDS. The third category (c3) is made up of 42 MSE owner-managers who use BDS but have no access to microcredit. The fourth and last participant category (c4) comprises 38 MSE owner-managers without access to either microcredit or BDS.

This chapter provides a detailed description of the socio-economic characteristics of the participants in the main sample (Sample I) comprising MSE owner-managers. The chapter is organised into two major sections. Section one provides a profile of participants' social characteristics, in particular their demographics, while section two looks at their economic attributes. The participants' demographic attributes reflected in these two sections form the basis for the controls later used in tests of perceived MSE performance related hypotheses in chapter seven. The chapter concludes with a brief description of the participants in the second sample; Sample II, which consists of MFIs and BDS agency representatives and independent researchers, and which is used to triangulate views elicited from MSE owner-managers.

³⁹ See the map of Kenya in annex 1 attached for a view of selected study sites.

5.2 Participants' Demographic Profile [Sample I]

In terms of gender, Table 11 below shows that male participants constituted 63.8 per cent of the entire sample and this distribution is not in any way unique to this study (Liedholm, 2002, ILO, 2008). This shows that with regard to gender, the study's sample is representative of the MSE owner-manager population in Kenya. Proportionately males are highest in respondent categories c3 (69.0 per cent) and c4 (68.4 per cent) and lowest in category c1 (credit and BDS) (57.1 per cent). The table also shows that 46.9 per cent of all participants are aged between 31 – 40 years. This trend is common across all the four respondent categories. It is however important to note that of all participants in category c1 (credit and BDS), 59.5 per cent are aged between 31-40 years and make up one third of all participants in this age bracket. In total 69.4 per cent of the sample is 40 years of age and below. These figures reveal that the MSE sector is dominated by young adults.

Table 11 further reveals that a significant majority of the participants are married. In total these represent 69.4 per cent of the sample. The remaining 30.6 per cent are singles, most of whom have never married, or who are widowed or separated for various reasons. Slightly more than 60 per cent of the participants have a tertiary level of education. Of these, four in every six observations have attained college level education. In other words, in the Kenyan context these participants have completed a post high school trade certificate or diploma in some technical field either at a polytechnic or an institution of similar status. However this does not include attainment of a university degree. The same picture is repeated when we look at the education of spouses. Nearly 67 per cent of participants' spouses are either tertiary certificate holders or university graduates. Of all cases, a significant 80.8 per cent is engaged in business as a full time occupation whereas the remaining 19.2 per cent identified as having a professional job besides operating their own business. This table also shows that the average family size for the entire sample is 3.87 people with a standard deviation of 2.17. That is, on average the families of participants comprise approximately 4 members.

Table 11: Participants' demographics: all categories [c1 – c4]

Variable		Participant category				Total (N=160)
		c1 [credit and BDS] (n=42)	c2 [credit only] (n=38)	c3 [BDS only] (n=42)	c4 [no credit no BDS] (n=38)	
	Response category					
Gender	male	24 (57.1%)	23 (60.5%)	29 (69.0%)	26 (68.4%)	102 (63.8%)
	30 years and below	3 (7.1%)	9 (23.7%)	12 (28.6%)	12 (31.6%)	36 (22.5%)
Age	31-40	25 (59.5%)	16 (42.1%)	16 (38.1%)	18 (47.4%)	75 (46.9%)
	41-50	13 (31.0%)	12 (31.6%)	11 (26.2%)	6 (15.8%)	42 (26.3%)
	above 50 years	1 (2.4%)	1 (2.6%)	3 (7.1%)	2 (5.3%)	7 (4.4%)
Marital status	married	32 (72.2%)	26 (68.4%)	31 (73.8%)	22 (57.9%)	111 (69.4%)
Education level	primary	1 (2.4%)	4 (10.5%)	1 (2.4%)	5 (13.2%)	11 (6.9%)
	high school	4 (9.5%)	7 (18.4%)	5 (11.9%)	12 (31.6%)	28 (17.5%)
	vocational	6 (14.3%)	10 (26.3%)	9 (21.4%)	7 (18.4%)	32 (20.0%)
	college	21 (50.0%)	13 (34.2%)	19 (45.2%)	12 (31.6%)	65 (40.6%)
	graduate	10 (23.8%)	4 (10.5%)	8 (19.0%)	2 (5.3%)	24 (15.0%)
Spouse's education	primary	3 (7.1%)	2 (5.3%)	1 (2.4%)	5 (13.2%)	11 (9.9%)
	high school	6 (14.3%)	8 (21.1%)	6 (14.3%)	6 (15.8%)	26 (23.4%)
	vocational	1 (2.4%)	5 (13.2%)	2 (4.8%)	3 (7.9%)	11 (9.9%)
	college	8 (19.0%)	10 (26.3%)	17 (40.5%)	7 (18.4%)	42 (37.8%)
	graduate	14 (33.3%)	1 (2.6%)	5 (11.9%)	1 (2.6%)	21 (18.9%)
Occupation	business only	32 (76.2%)	30 (78.9%)	29 (76.3%)	35 (92.1%)	126 (80.8%)
Family size	Mean	4.05	3.89	3.95	3.58	3.87
	Std. deviation	1.90	2.25	2.30	2.15	2.17

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS.

Looking at demographic profiles across categories, Table (12a) below presents a paired comparison between respondent categories c1 (credit and BDS) and c4 (no credit no BDS). This is important because while c1 represents MSE owner-managers who have accessed credit as well as BDS, participants in category c4 have not accessed either service. As such c4 serves as a control group.

The total number of participants in these two categories is 80. Of these, a majority (53.8 per cent) belong to the age group 31-40 years, reflecting the general trend in age distribution within the larger sample as noted earlier. However 63.2 per cent of the participants in category c4 (no credit no BDS) belong to age brackets 31-40 and 41-50 years compared to 90.5 per cent of participants in category c1 (credit and BDS). Using a Chi-Square test the difference between these two categories is found to be significant ($\chi^2 = 9.28$, $p < .05$). This is an indication that, on average, category c1 (credit and BDS) (users of credit and BDS) participants are more mature than those in the control group category c4 (no credit no BDS). Table 12a also shows that 62.5 per cent of the participants are male and that 67.5 per cent of them identified themselves as married. Although there are no significant gender differences, the social attribute of marital status presents a weakly significant difference between participants in categories c1 (credit and BDS) and c4 (no credit no BDS) ($\chi^2 = 3.04$, $p < .10$).

Table 12a further reveals that more than half of the cases have attained either college level education or higher. This is the case with 56 per cent of participants in the two categories c1 (credit and BDS) and c4 (no credit no BDS) and a similar percentage with regard to the education of their spouses. In both scenarios education is a significant ($\chi^2 = 14.37$, $p < .05$; $\chi^2 = 11.34$, $p < .05$ respectively) differentiator between participants in the two categories. Participants in categories c1 (credit and BDS) and c4 (no credit no BDS) are different also with regard to their residential status. Nearly half (42.9 per cent) of the category c1 (credit and BDS) participants live in rental houses compared to a significant majority 89.5 per cent in category c4 (no credit no BDS) ($\chi^2 = 19.14$, $p < .001$).

Given the fact that all participants are owner-managers of their businesses it may be implied that running the business is a full time occupation. However as already reflected in the larger sample, this is the case for only 83.8 per cent of participants in categories c1 (credit and BDS) and c4 (no credit no BDS). The incidence of taking up business as a full time occupation is more pronounced (92.1 per cent) for participants in category c4 (no credit no BDS) compared to 76.2 per cent in category c1 (credit and BDS) ($\chi^2 = 3.71$, $p < .10$). In this category the remaining 23.8 per cent, though in business, is engaged also in some form of salaried employment.

Table 12a: Participants' demographic profile: pair-wise comparisons [c1 vs. c4]

Variable		Participant category		Total (N=80)	Pearson Chi-Square value
		c1 [credit and BDS]	c4 [no credit no BDS]		
	Response category	(n=42)	(n=38)		
Age	30 years and below	3 (7.1%)	12 (31.6%)	15 (18.8%)	9.28**
	31-40	25 (59.5%)	18 (47.4%)	43 (53.8%)	
	41-50	13 (31.0%)	6 (15.8%)	19 (23.8%)	
	above 50 years	1 (2.4%)	2 (5.3%)	3 (3.8%)	
Gender	male	24 (57.1%)	26 (68.4%)	50 (62.5%)	1.08
Marital status	married	32 (72.2%)	22 (57.9%)	54 (67.5%)	3.04*
Education level	primary	1 (2.4%)	5 (13.2%)	6 (7.5%)	14.37**
	high school	4 (9.5%)	12 (31.6%)	16 (20.0%)	
	vocational	6 (14.3%)	7 (18.4%)	13 (16.3%)	
	college	21 (50.0%)	12 (31.6%)	33 (41.3%)	
	graduate	10 (23.8%)	2 (5.3%)	12 (15.0%)	
Spouse's education	primary	3 (7.1%)	5 (13.2%)	8 (14.8%)	11.37**
	high school	6 (14.3%)	6 (15.8%)	12 (22.2%)	
	vocational	1 (2.4%)	3 (7.9%)	4 (7.4%)	
	college	8 (19.0%)	7 (18.4%)	15 (27.8%)	
	graduate	14 (33.3%)	1 (2.6%)	15 (27.8%)	
Residence	own house	23 (54.8%)	4 (10.5%)	27 (33.8%)	19.14***
	rental	18 (42.9%)	34 (89.5%)	52 (65.0%)	
	mortgage	1 (2.4%)		1 (1.3%)	
Occupation	business only	32 (76.2%)	35 (92.1%)	67 (83.8%)	3.71*
Relevant business training	formal training	16 (38.1%)	9 (23.7%)	25 (31.3%)	4.03
	on-the-job	16 (38.1%)	23 (60.5%)	39 (48.8%)	
	family background	10 (23.8%)	6 (15.8%)	16 (20.0%)	

* ** significant at $p < 0.10$; ** significant at $p < 0.05$; * significant at $p < 0.001$

Legend: c1= participant MSE owner-managers in receipt of microcredit and BDS

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS.

Within these two categories c1 (credit and BDS) and c4 (no credit no BDS) nearly one third of participants reported to have had some formal training prior to starting in their business. However the majority of them (68.8 per cent) indicated to have on-the- job experience, either directly by running their own businesses or through a family business background. In other words, they acquired their business skills by ‘doing’ rather than through formal training. With a $\text{Chi}^2 = 4.03$ the two categories are not significantly different. In summary, participants in categories c1 (microcredit and BDS) and c4 (no credit no BDS) appear to differ on most demographic variables, with the exception of gender.

Turning attention now to participants belonging to categories c2 (credit only) and c3 (BDS only), Table 12b below reports the demographic profile of the 80 participants in these groups. It is important to note that participants in these categories serve as alternative control groups. In a sense, characteristics of participants in categories c2 (credit only) and c3 (BDS only) are expected to relate closely with characteristics of MSE owner-managers who have not used integrated credit and BDS.

Table 12b shows that 40 per cent of participants in categories c2 (credit only) and c3 (BDS only) belong to the age group 31-40 years compared to 26.3 per cent and 28.8 per cent for the age groups 30 years or less and between 41-50 years respectively. There are no significant age differences between participants in the two categories ($\text{Chi}^2 = 1.28$). The same is true for gender ($\text{Chi}^2 = 0.64$) and marital status ($\text{Chi}^2 = 0.28$). Table 12b also reveals that of all participants in categories c2 (credit only) and c3 (BDS only), 65 per cent are male and 71.3 per cent identified themselves as married at the time of the interview. Again most participants reported as having tertiary level education. Specifically 55 per cent of participants in categories c2 (credit only) and c3 (BDS only) are either college certificate holders or graduates. A similar observation is made with regard to spouse’s education (57.9 per cent of the cases).

Although previously education differences were clear between participants in categories c1 (credit and BDS) and c4 (no credit no BDS), this is not the case for the c2 (credit only) versus c3 (BDS only) cohort. Nevertheless, in relative terms participants in categories c2 (credit only) and c3 (BDS only) have slightly higher levels of education compared to their counterparts in categories c1 (credit and BDS) and c4 (no credit no BDS). For example, 72.6 per cent of cases in categories c1 and c4 have either tertiary level education or higher whereas in categories c2 (credit only) and c3 (BDS only) this represents 78.8 per cent. Additionally, spouses with a similar level of qualification represented 70.1 per cent for category c2 (credit only) and c3 (BDS only) participants compared to 63 per cent of participants in categories c1 (credit and BDS) and c4 (no credit no BDS).

Looking at residential status, Table 12b reflects that the majority (67.5 per cent) of participants in categories c2 (credit only) and c3 (BDS only) lived in rental houses. In terms of occupation, 77.6 per cent of participants in the two categories identified business as their primary occupation. The distribution of cases between the two categories in both cases is approximately even. Again in statistical terms there is no significant difference between these two respondent categories as regards residence or occupation.

Pertaining to training, before venturing into business, on-the-job experience is dominant representing 50 per cent of the cases in categories c2 (credit only) and c3 (BDS only). Among these cases however, 60.5 per cent are drawn from category c2 (credit only) alone. Participants in categories c2 (credit only) and c3 (BDS only) differ in a weakly significant way on account of possession of relevant business training prior to starting business ($\text{Chi}^2 = 4.98, p < .10$). In summary, contrary to the demographic differences observed between participants in categories c1 (credit and BDS) and c4 (no credit no BDS), participants in categories c2 (credit only) and c3 (BDS only) do not differ significantly from each other in demographic terms.

Table 12b: Participants' demographic profile: pair-wise comparisons [c2 vs. c3]

Variable		Participant category		Total	Pearson Chi-Square value
		c2 [credit only] (n=38)	c3 [BDS only] (n=42)		
Age	30 years and below	9 (23.7%)	12 (28.6%)	21 (26.3%)	1.28
	31-40	16 (42.1%)	16 (38.1%)	32 (40.0%)	
	41-50	12 (31.6%)	11 (26.2%)	23 (28.8%)	
	above 50 years	1 (2.6%)	3 (7.1%)	4 (5.0%)	
Gender	male	23 (60.5%)	29 (69.0%)	52 (65.0%)	0.64
Marital status	married	26 (68.4%)	31 (73.8%)	57 (71.3%)	0.28
Education level	primary	4 (10.5%)	1 (2.4%)	5 (6.3%)	4.46
	high school	7 (18.4%)	5 (11.9%)	12 (15.0%)	
	vocational	10 (26.3%)	9 (21.4%)	19 (23.8%)	
	college	13 (34.2%)	19 (45.2%)	32 (40.0%)	
	graduate	4 (10.5%)	8 (19.0%)	12 (15.0%)	
Spouse's education	primary	2 (5.3%)	1 (2.4%)	3 (5.3%)	5.99
	high school	8 (21.1%)	6 (14.3%)	14 (24.6%)	
	vocational	5 (13.2%)	2 (4.8%)	7 (12.3%)	
	college	10 (26.3%)	17 (40.5%)	27 (47.4%)	
	graduate	1 (2.6%)	5 (11.9%)	6 (10.5%)	
Residence	own house	12 (31.6%)	12 (28.6%)	24 (30.0%)	1.88
	rental	26 (68.4%)	28 (66.7%)	54 (67.5)	
	mortgage		2 (4.8%)	2 (2.5%)	
Occupation	business only	30 (78.9%)	29 (76.3%)	59 (77.6%)	0.076
Relevant business training	formal training	9 (23.7%)	20 (47.6%)	29 (36.35)	4.98*
	on-the-job experience	23 (60.5%)	17 (40.5%)	40 (50.0%)	
	family business	6 (15.8%)	5 (11.9%)	11 (13.8%)	

* significant at $p < 0.10$

Legend: c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit.

5.3 Participants' Economic Profile [Sample I]

In this section the economic characteristics of the participants are examined. The focus is to describe a clear picture of both the material and human attributes that explain the status of MSEs and their owner-managers respectively. To perform this examination, several key parameters are used including participants' experience in business, their earnings and expenses and possessions, amongst others. Experience is measured in terms of the duration for which a participant has been operating the current business as well as the total number of years the participant has been involved in business activities. Earnings on the other hand are measured in aggregate monthly terms and the same applies to expenses. In addition, possessions such as a vehicle or house are used as indicators of participants' asset bases. These two types of assets are chosen because they represent the most common forms of collateral for loan applications. First is presented economic profiles of the entire sample and thereafter pair-wise comparisons are made between participants who are either users or non users of either of the two support services i.e. microcredit and/or BDS.

Among all 160 participants, the average experience in business is 6.4 years (see Table 13 below). The standard deviation of 5.25 implies that business experience is widely varied across the sample. This variation is further confirmed by the fact that the minimum experience reported is 1 year while the maximum is 30 years hence giving a range of 29 years. It is important also to note that the majority of participants have less than ten years in business as Figure 6 below shows.

With regard to the duration of operating the current business, Table 13 reflects that the average duration is nearly five years (mean 4.68 years) with a standard deviation of 3.9. Again this means that there is a wide diversity in business age across all participants' businesses. A closer look at Figure 7 reveals that most of the businesses represented have been operational with the current owner for less than six years. Nevertheless it is worth noting that variation in the age of business is evident given the range of 23 years.

To get a better feel of how established the participants' businesses are, it is important to look at their branch networks as well as their staff sizes. Table 13 shows that participants' businesses have between one to six branches. The mean branch size is 1.24 with a standard deviation of 0.6. This means that there is 68 per cent likelihood that most participants' businesses have only one branch. In terms of staffing level, Table 13

shows that it varies from one to thirteen staff members. On average there are 3.55 staff members. The standard deviation around the average is 2.43 implying that 95 per cent of participants' businesses have between 3 to 4 staff members.

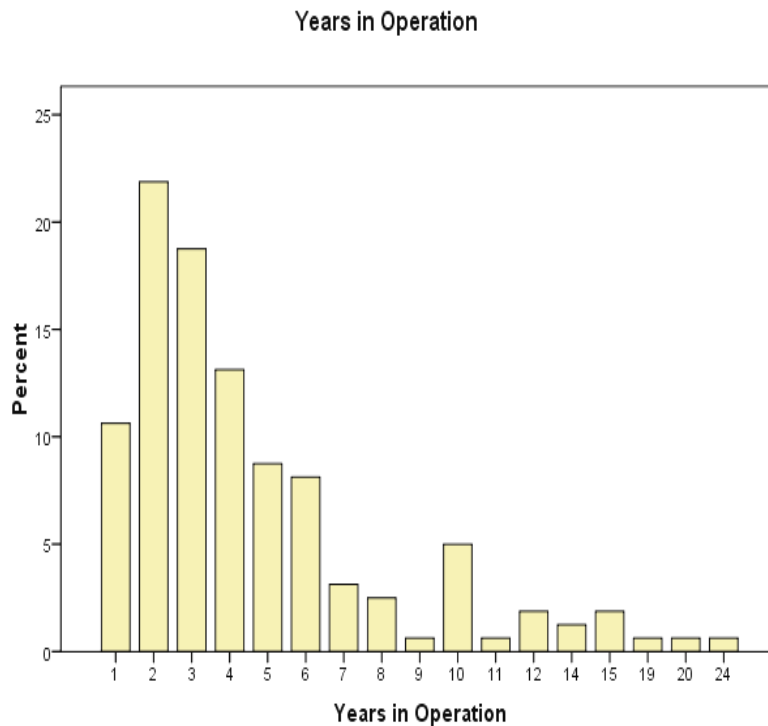
Table 13: Participants' and their respective MSEs' economic attributes

	MSE Years in operation (N=160)		Years of Experience in business (N=160)		MSE Number of employees (N=160)		MSE Number of branches (N=160)	
Range	23		29		13		5	
	Min	1	min	1	min	1	min	1
	max	24	max	30	max	14	max	6
Mean	4.68		6.40		3.55		1.24	
Std. Deviation	3.90		5.25		2.43		.60	

Figure 6: Participants' years of experience in business



Figure 7: Participants' duration of business operation



Turning now to material possessions, on average most participants (66 per cent) live in rental houses and only about 32 per cent of them identify themselves as living in their own house(see Table 14 below). A similar picture presents itself in terms of automobile ownership. As Table 14 shows, only 39 (24 per cent) of the 160 participants report to be in ownership of a car at the time of the interview. Given the fact that most participants have been in business for on average four and a half years, it is not surprising that 76 per cent do not have a car for either personal or business purposes.

Table 14: Participants' asset base

Variable	(N=160)	Number	Per cent (%)	Cumulative per cent
Residential status	own house	51	31.9	31.9
	rental	106	66.3	98.1
	mortgage	3	1.9	100.0
Total		160	100.0	
Own a car	(N=160)			
	no	121	75.6	75.6
	yes	39	24.4	100.0
Total		160	100.0	

The following table, Table 15, presents aggregates of participants' monthly income and expenses. The figures reveal that three quarters of all participants have a gross monthly income of less than KES 50,000, which is equivalent to (AUD) \$1000⁴⁰. The Table further shows that within this group of participants, 45 per cent earn less than KES 30,000 (AUD \$ 600) per month. With regard to expenses, Table 15 reveals that a large majority (81 per cent) of the participants spent less than KES 20,000 (AUD \$ 400) on a monthly basis. Of all participants, 33 per cent had a monthly expenditure of less than KES 10,000 (AUD \$200) and only 6.3 per cent identify as spending more than KES 30,000 (AUD \$600) on a monthly basis. Although the cost of living in Kenya may not be comparable to most developed countries, the expense budgets of some of the participants are only slightly above the World poverty line of a dollar a day. This implies that at least some of the participants are engaged in business for survival purposes.

Table 15: Participants' gross income and expenditure

Variable		Number (N=160)	Per cent (%)	Cumulative Per cent (%)
Income (KES)	below 20,000	33	20.6	20.6
	20,000-30,000	39	24.4	45.0
	31,000-40,000	26	16.3	61.3
	41,000-50,000	22	13.8	75.0
	more than 50,000	40	25.0	100.0
Expenditure (KES)	below 10,000	52	32.5	32.5
	10,000-20,000	77	48.1	80.6
	21,000-30,000	21	13.1	93.8
	more than 30,000	10	6.3	100.0

Next economic attributes across the participant categories are examined. First a comparison of the economic profile of the participants who use microcredit and those who have not used microcredit are examined. Second the economic attributes of participants who use BDS and those who do not are examined. In this way a clearer picture of all participants is gained with some of the differences that may exist between the respective participant categories highlighted.

Table 16 below presents the economic profile of participants who make use of microcredit and those who do not use credit from any source. According to the Table, although a majority (68 per cent) of the participants live in rental houses, 80 per cent of

⁴⁰ The exchange rate at the time of the interviews was (AUD) \$1=KES 50.

them fall into the group that does not use microcredit. Further, of all participants only 33 per cent identify as living in their own houses. Of these, a majority (44 per cent) fall into the group that uses credit. At a glance it seems participants who use credit are better placed in residential terms than those who do not. In general, on the basis of residential status there is a weakly significant difference between participants who use microcredit and those who do not ($\text{Chi}^2 = 10.47$, $p < .10$). The difference is more pronounced if we disregard mortgage holders and compare participants who live in their own houses and those who live in rentals ($\text{Chi}^2 = 10.13$, $p < .05$).

Besides residential status, as earlier stated ownership of a car is used also to determine the material circumstances of participants in this study. Table 16 shows that three quarters of the participants do not own a car. The distribution of the participants between users of credit and non users is close to even. Within participants who identify as not possessing a car, 73 per cent use microcredit while a slightly larger number (78.8 per cent) are not users of microcredit. As pertaining to occupation, as earlier noted, 81 per cent of the participants are engaged in business on a full time basis and have no alternative employment. Of these, 84 per cent are participants who do not use microcredit while an almost similar number (78 per cent) use credit. Between users and non users of microcredit, there are no significant differences on the two economic parameters of car ownership and occupation ($\text{Chi}^2 = 0.85$ & $\text{Chi}^2 = 1.13$ respectively).

Examining income, Table 16 further reflects that of the entire sample of 160 participants, 98 participants (61 per cent) have a gross monthly income of less than KES 41,000 (AUD \$ 820). Close to three quarters (71 per cent) of these participants are non users of microcredit while half (51 per cent) are users of microcredit. This may imply that participants who are non users of credit are more likely to earn less (in gross terms) than participants who use credit. This is even clearer when we observe that of the 62 (39 per cent of the entire sample) participants who earn more than KES 41,000 (AUD \$ 820) per month, almost half of them (49 per cent) are users of credit while slightly less than one third (29 per cent) are non users of credit. With a $\text{Chi}^2 = 8.74$, $p < .05$, there is a significant difference between users and non users of credit for participants who earn KES 40,000 (AUD \$ 800) or less per month. The same is true for all income categories taken together ($\text{Chi}^2 = 15.63$, $p < .05$). However there is no significant difference between the two groups of participants for income brackets KES 41,000-50,000 and KES above 50,000 ($\text{Chi}^2 = 0.52$) at 95 per cent confidence limit.

Turning to expenditure, Table 16 reveals that the expenditure budget for almost half of all participants (48 per cent) ranges between KES 10,000 to KES 20,000 (AUD \$ 200-400). Of these cases, 51 per cent are participants who use microcredit, whereas 45 per cent are non users of microcredit. Looking at the 52 participants whose expenditure is less than KES 10,000 (AUD \$ 200) per month, 33 cases (41 per cent) fall within the non users of credit group while only 19 cases (24 per cent) are in the credit users group. In summary, participants who are non users of microcredit report spending less compared to users of microcredit. This is not surprising given that it was noted earlier that participants in this category earn less compared to their counterparts who use microcredit. Overall across the four expenditure brackets there is a significant difference between users and non users of microcredit ($\chi^2 = 6.83$, $p < .10$). A similar observation is made for expenditure below KES 21,000 (AUD \$420) per month. However with a $\chi^2 = 0.13$ there is no significant difference between users and non users of credit for monthly expenditure that is either equal to or greater than KES 21,000 (AUD \$ 420).

Additionally Table 16 shows that the average branch network for participant owner-managers' MSEs is 1.34 for participants who are users of credit and 1.14 for non users. There is however minimal variation in the number of branches across participants' businesses ($\sigma = 0.73$ for users of credit and $\sigma = 0.41$ for non users). In spite of the minimal variation in branch networks, the difference between users of credit and non users is significant (t-test value = 2.14, $p < .05$). If we look at employee numbers, the average is 3.75 for MSEs belonging to participants who use microcredit, compared to 3.35 for MSEs run by non users of microcredit. In this case however there is no significant difference between the two groups (t-test value 1.04).

As pertains to participants who are users of microcredit, Table 16 also shows that on average their MSEs have been in operation for about 5 years ($\bar{x} = 4.93$) compared to their counterpart non-users of microcredit where the average is 4.43 years. With a t-test value of 0.81 the difference in the age of participant MSE owner-managers' businesses between the two groups is not significant. With regard to the participants' overall experience in business activities, the average period among users of microcredit is 7.18 years compared to 5.63 years among non users. It can be noted also that with a t-test value of 1.90 at $p < .10$, not only is difference in business experience between users and non users of microcredit weakly significant, but it also varies more among users of

microcredit ($\sigma = 5.99 \text{ \& } 4.29$, respectively). From the above it appears that participant MSE owner-managers who use credit are likely to be more experienced in business than those who identify as non users of credit.

Table 16: Participants' economic profile: pair-wise comparisons – credit users vs. non users, regardless of use of BDS [c1 & c2 vs. c3 & c4]

Variable (nominal)		Participant category			(N)	Total	Chi-Square value		
		c1and c2 [credit]	c3 and c4 [no credit]						
	response category	(n=80)	(n=80)						
Residence	own house	35 (44.3%)	16 (20.5%)	(160)	51 (32.5%)	10.13**	10.47*		
	rental	44 (55.7%)	62 (79.5%)		106 (67.5%)				
	mortgage	1 (1.3%)	2 (2.5%)		3 (1.9%)				
Own car	yes	22 (27.5%)	17 (21.3%)	(160)	39 (24.4%)	0.85			
	no	58 (72.5%)	63 (78.8%)		121 (75.6%)				
Occupation	business only	62 (77.5%)	64 (84.2%)	(156)	126 (80.8%)	1.13			
	business & professional job	18 (22.5%)	12 (15.8%)		30 (19.2%)				
Monthly income (KES)	below 20,000	7 (8.8%)	26 (32.5%)	(160)	33 (20.6%)	8.74**	15.63*		
	20,000-30,000	20 (25.0%)	19 (23.8%)		39 (24.4%)				
	31,000-40,000	14 (17.5%)	12 (15.0%)		26 (16.3%)				
	41,000-50,000	15 (18.8%)	7 (8.84%)		22 (13.8%)	0.52			
	above 50,000	24 (30.0%)	16 (20.0%)		40 (25.0%)				
Monthly expenditure (KES)	below 10,000	19 (23.8%)	33 (41.3%)	(160)	52 (32.5%)	3.48*	6.83*		
	10,000-20,000	41 (51.3%)	36 (45.0%)		77 (48.1%)				
	21,000-30,000	14 (17.5%)	7 (8.8%)		21 (13.1%)	0.13			
	above 30,000	6 (7.5%)	4 (5.0%)		10 (6.3%)				
Variable Continuous		range	mean	std. dev.	range	mean	std. dev.	(N)	t- value
Number of branches		5	1.34	0.73	2	1.14	0.41	(160)	2.14**
Number of employees		13	3.75	2.37	9	3.35	2.49	(160)	1.04
Years in Operation		23	4.93	4.10	19	4.43	3.71	(160)	0.81
Experience in business (years)		29	7.18	5.99	19	5.63	4.29	(160)	1.90*

* significant at $p < 0.10$; ** significant at $p < 0.05$

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

Table 17 below presents the economic profile of participants divided into those who have made use of BDS and those who have not regardless of whether or not credit has been accessed. According to the Table, a majority (66 per cent) of these participants live in rental houses. Of these, 79 per cent of these participants do not use BDS while 55 per cent identify as being users of BDS. The Table further reveals that about one third (32 per cent) of the participants live in their own houses. Of these, 42 per cent are in the users of BDS group while one fifth (21 per cent) identify as non users of BDS.

In general therefore it appears that participants who use BDS are more likely to own a house than those who do not. As far as residence is concerned, the difference between participants who use BDS and those who do not is significant ($\text{Chi}^2 = 11.56$, $p < .05$). Disregarding mortgages and taking into account the two residential options of owning a house or rental, the difference between users and non users of BDS remains significant with a $\text{Chi}^2 = 8.75$ at $p < .05$.

Turning to material possessions, Table 17 shows that slightly more than one fifth (24 per cent) of the participants are in possession of a car. Among these about a third (32 per cent) identify as being users of BDS while 16 per cent are non users. Table 17 also shows that slightly more than three quarters (76 per cent) of the participants do not own a car, either for business or personal use. Within this category a significant 84 per cent of participants belong to the non users of BDS group, while 68 per cent identify to be users of BDS. On the possession parameter of car ownership and with a $\text{Chi}^2 = 5.79$ at $p < 0.05$, this difference between BDS users and non users is significant.

Table 17: Participants' economic profile: pair-wise comparisons – BDS users vs. non users, regardless of use of credit [c1 & c3 vs. c2 & c4]

Variable (nominal)			Participant category		(N)	Total	Chi-Square value	
			c1and c3 [BDS] (n=84)	c2 and c4 [no BDS] (n=76)				
Residence	own house	35 (42%)	16 (21%)	(160)	51 (32%)	8.78**	11.56**	
	rental	46 (55%)	60 (79%)		106 (66%)			
	mortgage	3 (4%)			3 (2%)			
Own car	yes	27 (32%)	12 (16%)		39 (24%)	5.79**		
	no	57 (68%)	64 (84%)		121 (76%)			
Occupation	business only	61 (76%)	65 (86%)		126 (81%)	2.16		
	business & professional job	19 (24%)	11 (15%)		30 (19%)			
Monthly income (KES)	below 20,000	10 (12%)	23 (30%)		33 (21%)	5.92*	10.49**	
	20,000-30,000	19 (23%)	20 (26%)		39 (24%)			
	31,000-40,000	16 (19%)	10 (13%)		26 (16%)			
	41,000-50,000	13 (16%)	9 (12%)		22 (14%)	7.13*		
	above 50,000	26 (31%)	14 (18%)		40 (25%)			
Monthly expenditure (KES)	below 10,000	23 (27%)	29 (38%)		52 (32%)	2.07	5.81	
	10,000-20,000	44 (52%)	33 (44%)		77 (48%)			
	21,000-30,000	14 (17%)	7 (9%)		21 (13%)	3.68*		
	above 30,000	3 (4%)	7 (9%)		10 (6%)			
Variable Continuous	range	mean	std. dev.	range	mean	std. dev.	(N)	t- value
Number of branches	7	1.37	0.76	4	1.09	0.29	(160)	3.11**
Number of employees	17	4.35	2.67	11	2.67	1.78	(160)	4.70***
Years in Operation	26	5.54	4.62	21	3.72	2.63	(160)	3.01**
Experience in business (years)	29	6.67	5.59	22	6.11	4.87	(160)	0.68

* significant at p<0.10; ** significant at p<0.05; *** significant at p<0.001

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

With regard to participants' occupation, (as noted earlier) in total 81 per cent identify as being in business on a full time basis while about one fifth (19 per cent) are involved in business in addition to having a professional job. In the category of participants who are in business as a full time career, 76 per cent belong to the users of BDS group whereas 86 per cent identify as non users of BDS. With a χ^2 value of 2.16 there is no significant difference between BDS users and non BDS users as far as occupation is concerned.

Making a pair-wise comparison between BDS users and non users, Table 17 reveals that as noted in relation to Table 16, the gross monthly income for 61 per cent of the participants is less than KES 41,000 (AUD \$ 820). Of these participants, 69 per cent identify as non BDS users with 54 per cent BDS users. These proportions compare closely with the comparison between users and non users of microcredit reported in Table 16. Additionally it seems that participants, who do not use BDS just like their counterparts who do not access microcredit, are more likely to earn less (in gross terms) than participants who use BDS. A closer look at the figures in Table 17 reveals that close to two fifths (39 per cent) of all participants earn more than KES 41,000 (AUD \$ 820) per month. Within this category almost half (47 per cent) of them are users of BDS and close to one third identify as non users of BDS. It is worth noting that with a $\chi^2 = 5.92$ at $p < .10$, there is a weakly significant difference between users and non users of BDS among participants earning less than KES 41,000 (AUD \$ 820).

Taking all income categories into account, there is a significant difference between users and non users of BDS ($\chi^2 = 10.49$, $p < .05$). When comparing microcredit users and non users, it is noted that there is no significant difference among participants whose monthly income exceeds KES 41,000 (AUD \$ 820), however this is not the case with BDS users and non users. For participants in these groups it is only in participant cases where monthly income is greater than KES 50,000 (AUD \$ 1000) that significant differences are not observed. In relative terms and with regard to monthly incomes below KES 41,000 (AUD 820), differences observed between users and non users of BDS are weaker than that those observed between users and non users of microcredit. In general, income remains a key discriminator among this study's key participant groups.

Looking at expenditure, Table 17 shows that the monthly expenditure budget for 80 per cent of all participants is below KES 21,000 (AUD \$ 420). This incidence is commonly observed among participants in both groups, representing 79 per cent of the BDS users and 82 per cent of non BDS users. The Table also shows that of the 31 participants whose monthly expenditure is greater than KES 20,000 (AUD \$ 400), 17 (67 per cent) of them are BDS users while the remaining 14 (33 per cent) identify as non users of BDS. There is a weakly significant difference between users and non users of BDS among participants with expenditure budgets exceeding KES 20,000 (AUD \$ 400) per month ($\chi^2 = 3.68$, $p < 0.10$).

While overall expenditure is found to be a significant discriminator among users and non users of microcredit, it is not the case between BDS users and non users. It can be observed that with regard to expenditure, results of comparisons between BDS users and non users are the reverse of what is observed between users and non users of credit. For example, while there is no significant difference between users and non users of BDS for overall monthly expenditure it is the case that there is between users and non users of microcredit. Additionally, while the difference between participants who are users of BDS and those who are not is significant (for monthly expenditures greater than KES 20,000 (AUD \$ 400)), this is not the case between users and non users of credit.

Table 17 reflects that the mean branch network for participant owner-managers' MSEs in the BDS user group is 1.37 while for non BDS users it is 1.09 branches. There is however minimal variation in the number of branches across participants' businesses ($\sigma = 0.76$ for BDS users and $\sigma = 0.29$ for BDS non users). On this parameter the difference between BDS users and non users is significant (t-test value = 3.11, $p < .05$). Turning to staffing levels, the average is 4.35 employees for MSEs belonging to participants who use BDS compared to 2.67 employees for MSEs owned by non BDS users. Again the difference between the two groups is significant (t-test value 4.70, $p < 0.001$), this time highly so.

With regard to participants who are BDS users, Table 17 shows that on average their MSE businesses have been operational for close to six years ($\bar{x} = 5.54$ years) compared to an average of 3.72 years for non users of BDS. With a t-test value of 3.01 the difference in the age of participants' MSEs between the two groups is significant at $p < 0.05$. The average experience in business is more than six years for participants in

both the BDS user and non user groups. The mean experience in business is 6.67 and 6.11 years for BDS users and non users respectively. Although there is no significant difference between participants in the two groups (t-test value = 0.68) there is some differential variation in business experience among participants ($\sigma = 5.99$ for users of BDS and $\sigma = 4.87$ for non BDS users). In general it appears that participants with more experience in business are more inclined to use BDS than their less experienced counterparts.

In summary, the foregoing shows that the differences in economic attributes between BDS users and non users are more pronounced than those between microcredit users and non users. Further this observation may imply that there are clearly observable differences between participants who are users of microcredit and those who use BDS. This is an aspect that is next examined.

Table 18 below presents pair-wise comparisons of the economic profile between participants in receipt of credit without BDS and vice versa. The table shows that despite the differences noted earlier, except for income and expenditure parameters, the economic differences between participants only in receipt of either microcredit or BDS are not significant. The table reveals with regard to gross monthly income below KES 41,000 (AUD \$ 820) that there is a significant difference between participants in receipt of microcredit without BDS and those in receipt of BDS without microcredit ($\text{Chi}^2=21.39, p<0.05$). Table 18 further shows that with a $\text{Chi}^2 = 11.96$ at $p<0.05$, there is also a significant difference between the two groups of participants for monthly expenditures less than KES 21,000 (AUD \$ 420). Additionally the Table reveals that with regard to employee numbers there is a significant difference between participants in exclusive receipt of microcredit or BDS (t-test value = -2.42, $p<0.05$). In aggregate terms however there is no significant difference between participants who use microcredit without BDS and vice versa.

It is important to also examine whether there are any significant differences between participants in the other five participant categories. The following table, Table 19, presents pair-wise comparisons of the economic profile of participants in all six respondent categories.

Table 18: Participants' economic profile: pair-wise comparisons – BDS users vs. non users regardless of receipt of credit [c2 vs. c3]

Variable (nominal)		Category				Chi-Square value		
		c2 [credit only]	c3 [BDS only]					
	response category	n=38	n=42		Total			
Residence	own house	12 32%	12 29%	(80)	24 30%	1.88		
	rental	26 68%	28 67%		54 68%			
	mortgage		2 5%		2 3%			
Own car	yes	8 21%	13 31%	(80)	21 26%	1.01		
	no	30 79%	29 69%		59 74%			
Occupation	business only	30 79%	29 76%	(80)	59 78%	0.08		
	business & professional job	8 21%	9 24%		17 22%			
Monthly income (KES)	below 20,000	3 8%	6 14%	(80)	9 11%	21.39**	1.65	
	20,000-30,000	10 26%	9 21%		19 24%			
	31,000-40,000	8 21%	10 24%		18 23%			
	41,000-50,000	6 16%	4 10%		10 13%	1.90		
	above 50,000	11 29%	13 31%		24 30%			
Monthly expenditure (KES)	below 10,000	8 21%	12 29%	(80)	20 25%	11.96**	2.60	
	10,000-20,000	22 58%	25 60%		47 59%			
	21,000-30,000	4 11%	4 10%		8 10%	3.70		
	above 30,000	4 11%	1 2%		5 6%			
Variable Continuous		mean	std. dev.	mean	std. dev.	N	t-value	
Number of branches		1.13	0.34	1.21	0.52	(80)	-0.83	
Number of employees		2.95	1.85	4.21	2.70	(80)	-2.42**	
Years in operation		3.95	2.92	5.26	4.50	(80)	-1.53	
Experience in business (years)		7.03	5.75	6.02	4.79	(80)	0.85	

** significant at $p < 0.05$

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

From the Table it is clear that with a few exceptions there are no significant differences between participants in categories c1 (credit and BDS), c2 (credit only) and c3 (BDS only). This implies that generally, participants who use microcredit as well BDS and those who use either of these two support services singly, are not significantly different. There is a weakly significant difference between participants in category c1 (credit and BDS) and either category c2 (credit only) or c3 (BDS only) with respect to their

residential status ($\chi^2 = 5.73$, $p < 0.10$; $\chi^2 = 5.96$, $p < 0.10$; for c1 vs. c2 & c1 vs. c3 respectively). However with respect to the branches network of participants' MSE businesses there is a significant difference between participants in categories c1 (credit and BDS) and c2 (credit only) (t-test value = 2.58, $p < 0.05$). Similarly with a t-test value = 3.07 and 2.12 at $p < 0.05$, there is a significant difference between participants' MSE businesses in these two categories with respect to number of employees and years in operation respectively.

As Table 19 reveals, a high level of differences result when comparisons are made between participants in categories c4 (no credit no BDS) or c1 (credit and BDS) and c3 (BDS only). Indeed there are significant economic differences between participants in these categories in almost all the key parameters examined. For example Table 19 shows that on residential status, participants who are in receipt of both microcredit and BDS (c1) and those who do not use either of the two services (c4) differ significantly ($\chi^2 = 19.14$, $p < 0.05$). Similar significant differences emerge in comparisons between participants in exclusive receipt of BDS (c3) and those of neither credit nor BDS (c4) ($\chi^2 = 6.40$, $p < 0.05$). With regard to car ownership figures in Table 19 reveal that there are significant differences between participants in category c4 (no credit no BDS) and participants in either category c1 (credit and BDS) or c3 (BDS only) ($\chi^2 = 5.95$, $p < 0.05$; $\chi^2 = 4.97$, $p < 0.05$; for c1 vs. c4 & c3 vs. c4 respectively).

Turning to comparison on participants' incomes, Table 19 shows that there are significant differences between participants in most of the participant categories. For example a comparison between participants in categories c1 (credit and BDS) and c4 (neither users of credit nor BDS) reveal a strong significant difference across all monthly income brackets ($\chi^2 = 21.77$, $p < 0.001$). Similar significant differences are seen in participant comparisons for categories; c2 (credit only) and c4 (no credit no BDS) ($\chi^2 = 21.74$, $p < 0.001$) and, c3 (BDS only) and c4 (no credit no BDS) ($\chi^2 = 19.17$, $p < 0.05$). It is worth noting significant differences are reflected also across most participant categories for monthly incomes below KES 41,000 (AUD \$ 820) ($\chi^2 = 10.45$, $p < 0.05$ for c1 (credit and BDS) vs. c4 (no credit no BDS); $\chi^2 = 14.51$, $p < 0.05$ for c2 (credit only) vs. c4 (no credit no BDS); and $\chi^2 = 12.25$, $p < 0.05$ for c3 (BDS only) vs. c4 (no credit no BDS). However there are no significant differences among participants with monthly incomes exceeding KES 40,000 (AUD \$ 800) across any of the categories.

Looking at expenditure budgets, Table 19 shows that in general terms expenditure differs significantly especially for participants in category c4 (no credit no BDS) when compared to participants in categories c2 (credit only) and c3 (BDS only). With a $\chi^2 = 9.05$ at $p < 0.05$, expenditure budgets for participants in categories c1 (credit and BDS) and c4 (no credit no BDS) differ significantly. Similarly significant differences in expenditure emerge when participants in category c4 (no credit no BDS) are compared with their counterparts in categories c2 (credit only) and c3 (BDS only) ($\chi^2 = 9.78$, $p < 0.05$ for c2 (credit only) vs. c4 (no credit no BDS), and $\chi^2 = 8.86$, $p < 0.05$ for c3 (BDS only) vs. c4 (no credit no BDS). The significant differences in expenditure across most participant categories result more from monthly expenditure budgets below KES 21,000 (AUD \$ 420) than otherwise. For example with a $\chi^2 = 5.20$, $p < 0.05$, the difference in monthly expenditures below KES 21,000 (AUD \$ 420) between participants in categories c1 (credit and BDS) and c4 (no credit no BDS) is significant. Similar results emerge from comparisons between participants in categories; c2 (credit only) vs. c4 (no credit no BDS), and c3 (BDS only) vs. c4 (no credit no BDS) ($\chi^2 = 9.44$, $p < 0.05$; $\chi^2 = 7.58$, $p < 0.05$, respectively).

As noted earlier there are significant differences in the number of years their MSE has been established among participants' businesses, though not as pronounced as in the case of income and expenditure. Results in Table 19 show that MSEs belonging to participants in categories c1 (credit and BDS) and c4 (no credit no BDS) differ significantly with regard to branch network, staff size and years in operation (t-test value = 2.79, $p < 0.05$; t-test value = 4.30, $p < 0.001$, and t-test value = 3.22, $p < 0.05$, respectively). Looking at participants in categories c3 (BDS only) and c4 (no credit no BDS), the number of years of MSE operation differs significantly as well. For example for this group the t-test value is 3.57 at $p < 0.05$ for staff levels and t-test value is 2.24 at $p < 0.05$ as pertains to years in operation. From the foregoing it is clear that the economic profile of participants in category c4, being owner-managers of MSEs who currently do not use either microcredit or BDS, differ significantly from their counterparts in the other three categories. This means that, as intended, participants in category c4 serve as an effective control group in terms of negating the influence of MFI and/or BDS on the performance of participant owner-managers MSEs.

Table 19: Pair-wise comparisons test of differences all categories [c1– c4] (Chi-Square test & independent samples t-test)

Variable (nominal)		Participant category											
		c1Vsc2 [credit]		c1Vsc3 [BDS]		c1Vsc4 [credit and BDS vs. non users]		c2vs c3 [credit only vs. BDS only]		c2Vsc4 [credit only vs. no credit no BDS]		c3Vsc4 [BDS only vs. no credit no BDS]	
		(n=80)		(n=84)		(n=80)		(n=80)		(n=76)		(n=80)	
	Response category	Chi² value		Chi² value		Chi² value		Chi² value		Chi² value		Chi² value	
Residence	own house	5.73*		5.96*		19.14**		1.88		5.07**		6.40**	
	rental												
	mortgage												
Own car	yes	1.51		0.06		5.95**		1.01		1.58		4.97**	
	no												
Occupation	business only	0.09		0.00		3.71*		0.08		2.66		3.56*	
	Business & professional job												
Monthly income (KES)	20,000 and below	0.40	0.99	0.91	3.38	10.45**	21.77***	21.39**	1.65	14.51**	21.74***	12.25**	19.17**
	21,000-30,000												
	31,000-40,000												
	41,000-50,000	0.13		1.30		0.16		1.90		0.40		1.47	
	above 50,000												
Monthly expenditure (KES)	10,000 and below	0.69	3.74	0.13	3.77	5.20**	9.05**	11.96**	2.60	9.44**	9.78**	7.58**	8.86**
	11,000-20,000												
	21,000-30,000	2.54		0.03		2.22		3.70		0.00		1.06	
	Above 30,000												
Variable (continuous)		t-test value		t-test value		t-test value		t-test value		t-test value		t-test value	
Number of branches		2.58**		1.90*		2.79**		-0.85		1.19		1.83*	
Number of employees		3.07**		0.45		4.30***		-2.42**		1.36		3.57**	
Years in operation		2.12**		0.54		3.22**		-1.57		0.74		2.24**	
Experience in business		0.21		1.06		1.87*		0.84		1.67		0.90	

* significant at p<0.10; ** significant at p<0.05; *** significant at p<0.001

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

5.4 General profile of Participants [Sample II]

As stated earlier in this chapter, the purpose of the second sample of participants used in this study is to triangulate the views elicited from MSE owner-managers with regard to the perceived usefulness of access to both BDS and microcredit in their MSEs' performance. In total the second sample of this study consists of 19 purposively selected participants (see a summary of their attributes below). Of these, eight participants are representatives drawn from BDS agencies that have MSEs as their primary target, while nine participants are representatives of MFIs. The remaining two participants are independent researchers in private practice with an interest in Kenya's MSE sector.

Among the eight participants representing BDS firms, four come from agencies that operate as not-for-profit organisations, while two identify with private limited companies. The remaining participants represent BDS firms that are licensed as either trusts or partnerships. It is noted that six of the participants come from BDS agencies having been in operation for more than ten years. Most of the BDS firms represented have a national branch network (this is true for five of the cases), two have regional outlook while at least one of the firms represented is an international organisation. Almost all BDS agencies represented by the participants in this sample have, as their main target market, MSEs across diverse sectors such as agriculture, trade, services, and manufacturing, in either rural or urban settings.

Summary of participants' attributes (Sample II)									
	Legal identify			Age of firm (years)		Branch network			No.
	NGO	Limited Co.	Other	≤ 10	> 10	National	Regional	International	
Representatives of BDS firms targeting MSEs	4	2	2	2	6	5	2	1	8
MFI representatives	4	3	2	4	5	8	1		9
Researchers in private practice									2
Total									19

As for representatives of MFIs, three of the nine participants identify with firms licensed as limited liability companies, four come from NGO-based MFIs, while publicly listed companies and credit unions have at least one representative each. Of the nine MFIs

represented in the sample, five are mature having been in operation for ten or more years, while the remaining four firms are aged between six and ten years. With the exception of one participant whose MFI has a regional outlook all the other participants represent MFIs with a national branch network. As expected, MSEs in rural as well as urban areas and across all sectors are the main target for all MFIs represented. Lastly one of the two independent researchers within the sample comes from a quasi-government policy research institution while the other is an author and runs a private research firm which consults mainly for NGOs working in the MSE sector.

5.5 Conclusion

This chapter provides a profile description of the two distinct sample participants recruited for this study. In particular the chapter offers a detailed analysis of both demographic and economic attributes of the participant MSE owner-managers (Sample I, being the main sample for the study). The chapter notes that participants across the four participant categories (c1 through c4) compare favourably along most social attributes, for example, gender, age, level of education, and marital status. However significant economic differences are noted between participant MSE owner-managers who do not use either BDS or microcredit (category c4) and MSE owner-managers in other participant categories (c1, c2, and c3) who use BDS or microcredit or both. Lastly the chapter also provides a brief description of the key characteristics of participants in Sample II, being representatives of MFI or BDS agencies, and independent researchers in the field of microfinance. Next is an analysis of MSE owner-managers' perceptions of the benefits accruing from access to microcredit and BDS.

6.0 Chapter Six: Usefulness of Microcredit and BDS – MSE Owner-managers' Perceptions

6.1 Introduction

This chapter presents analysis of participant micro and small enterprise (MSE) owner-managers' perceptions of the usefulness of both business development services (BDS) and microcredit as support services to their enterprises. The analyses presented here address, on a univariate basis, Research Questions 1 to 3 and partly 5, which broadly relate to assessing the benefits (or otherwise) that might accrue to MSE owner-managers given their access to either BDS and/or microcredit, as stated in chapter one. In addition, analyses performed in this chapter provide further background to possible differential perceived MSE performance contingent on access to BDS and microcredit, jointly or singly. This is a subject examined later in chapter seven. The chapter proceeds as follows. The first part is devoted to outlining the general attributes that characterise MSEs whose owner-managers are users of microcredit and/or BDS. The second part describes the participants' perceptions of issues surrounding their access to microcredit and its use. The third and last part examines issues pertaining to participants' access to BDS and their use of it.

The usefulness of BDS (in its various forms) is assessed partly on the basis of perceptions about its delivery effectiveness and partly on whether current BDS practices are perceived to match strategically the skill set needs of MSE owner-managers. In relation to microcredit services, emphasis is on perceptions of whether eligibility for, access and the terms and conditions linked to its use are meeting the needs of MSE owner-managers. The discussions are guided largely by MSE owner-managers' perceptions as captured by responses to this study's structured interview protocol. This is in addition to insights provided by representatives of microfinance institutions (MFIs) and BDS providers and the independent researchers with an interest in entrepreneurship and the MSE sector, during open-ended interviews. Further insights are provided by interpreting the results in light of the conceptual frameworks introduced in chapter three.

6.2 Nature of Credit and BDS users' Businesses

Before moving into detailed analysis of the perceived usefulness of microcredit and BDS, it is important to first understand the general characteristics of the MSEs run by participants who use microcredit as well as those who use BDS, either jointly or singly.

Tables 20a and 20b below present an outline of the key attributes that characterise participants' businesses for microcredit users and BDS users respectively. The attributes examined here include; the nature of business activity, industry affiliation, type of ownership and business stage of development, among others.

According to Table 20a, close to half (48 per cent) of the 80 participants in receipt of microcredit run businesses involving some aspect of trade. The same picture is reflected (see Table 20b) among their counterparts who use BDS (48 per cent). As a classification category, trade covers a wide range of resale activities including; general grocery (23 per cent), clothes stalls (16 per cent), hardware (12 per cent), beauty products (7 per cent, and electronics (5 per cent), among others (see Figure 8 below). Figure 8 reflects that the most popular form of trade is general grocery, representing slightly more than one-fifth (23 per cent) of the participants' businesses. It is observed that these shops retail household goods and are a common feature in most residential areas across all four study sites.

Most of the other participants' businesses belong to either personal services or agribusiness categories. The personal services business activity represents 19 per cent of the cases of participants who use microcredit (see Table 20a) compared to 16 per cent of their counterparts who identify as users of BDS (see Table 20b). The agribusiness category, according to Table 20a, accounts for 10 per cent of the participants who use microcredit and 12 per cent of participants who identify as users of BDS (see Table 20b). As in the case of trade, there is wide variation in business activity within these categories, especially for the category of personal services (see Figure 9 below). For example, in the personal services business category, activity takes the form of barber shops, salons, dry cleaning, fashion design, and taxis, among others. Additionally for the agribusiness category, participants' businesses include various farming activities such as dairy, poultry, garden seedlings, fish and fruit farming.

Table 20b, further reveals that there are more businesses (14 per cent) with food related activities among participants who use BDS, compared to 9 per cent among participants who use microcredit (see Table 20a). Food related activity is mainly in the form of cereals stalls, butcheries, and restaurants. In general there are fewer businesses of a technical nature (9 per cent) among participants in receipt of microcredit and only 5 per cent of participants in receipt of BDS (see Tables 20a and 20b respectively). The nature

of technical activity among participants' businesses ranges from metal works and mechanics to cyber cafe (internet) services. Across most business activity categories, the distribution of cases between users and non users of either microcredit or BDS is close to even (see Tables 20a and 20b respectively). In summary, Chi-Square test results in Tables 20a and 20b reveal no significant differences between participants who are users and those who are non users of either microcredit or BDS ($\chi^2 = 2.67$ and $\chi^2 = 3.37$ respectively).

In terms of industry affiliation, majority of the businesses (78 per cent) for participants who use microcredit (see Table 20a) and (77 per cent) for BDS users (see Table 20b), handle goods rather than provision of services. This implies that most of the trade activity reported involves resale of tangible goods. In relative terms, trade in goods is likely to demand less management skills and attract minimal operating costs compared with trade in services. It is likely these features make it more attractive to owner-managers of MSEs. With a Chi-Square value of 0.04, there is no significant difference (in terms of industry affiliation of participants' businesses) between users and non users of microcredit (see Table 20a). Similarly there is no significant difference between users and non users of BDS ($\chi^2 = 0.03$, see Table 20b).

Turning to ownership structure, Tables 20a and 20b reveal that the legal framework of the majority (71 per cent) of participants' businesses is as a sole proprietorship. Sole proprietorships form 67 per cent of all participants' businesses for both microcredit users and BDS users. It is noted that participants may prefer operating as sole proprietors because this form attracts minimal legal compliance costs. According to these Tables, there are slightly more cases of partnerships reported among participants who use BDS (31 per cent) than for participants who use microcredit (29 per cent). It is however noted that most of these partnerships are not partnerships in the strict legal sense. Some of them are simply group businesses run either by women on behalf of other family members or young adults. The limited liability company form of business establishment is not common (2 per cent) within the MSE sector. This is not surprising given the comparatively complex compliance and legal issues associated with setting up and running a limited liability company. With regard to the legal status of businesses, results of Chi-Square tests reflected in Tables 20a and 20b, show no significant differences between participants who either use or do not use microcredit and/or BDS ($\chi^2 = 3.74$ and $\chi^2 = 1.39$). However there is a weakly significant difference between

participants who are users of microcredit and those who are not users with regard to sole proprietorships and limited company ownership structures ($\chi^2 = 3.43$, $p < 0.10$).

According to both Table 20a and Table 20b, more than half of all participants' businesses (53 per cent for microcredit users and 57 per cent for BDS users) are identified as established (i.e. have been in operation for more than five years). The Tables further show that 34 per cent of participants who are users of BDS and a similar proportion (33 per cent) of participants who use microcredit, identify their businesses as newly established (i.e. have been in operation for between three to five years). In general however, more than 85 per cent of all participants' businesses have been operational for more than three years. Beyond the discovery phase of the business growth cycle, Table 20b reveals a weakly significant difference between participants who use BDS and those who do not use BDS ($\chi^2 = 5.43$, $p < 0.10$). Generally however across all the four stages of the business growth cycle presented in Tables 20a and 20b, there is no significant difference between users and non users of either microcredit or BDS ($\chi^2 = 2.61$ and $\chi^2 = 6.15$).

Tables 20a and 20b further show that 84 per cent of participants who use microcredit report operating a business account compared to 76 per cent of the participants who use BDS. Given that only 51 per cent (see Table 20a) of participants who are non users of microcredit report holding a business account, it seems that microcredit users are more likely to hold a business account than their counterparts. This observation is not unexpected because one would expect that most MFIs would require potential borrowers to open an account as a precondition for membership and access to credit services. With regard to holding a business account, there is a highly significant difference between participants who use microcredit and those who do not ($\chi^2 = 18.13$, $p < 0.001$, see Table 20a). A similar observation is made of the difference between users and non users of BDS ($\chi^2 = 4.05$, $p < 0.05$, see Table 20b).

Data in Tables 20a and 20b reveal that savings accounts are the most common (62 per cent) type of business accounts operated by participants. This is the case for more than three-quarters (79 per cent) of the participants who use microcredit, and more than two-thirds (71 per cent) of the participants who use BDS. According to the data in these Tables, current accounts are the second most popular (37 per cent) type of business accounts. Among participants who use microcredit, 58 per cent are current account holders compared to 39 per cent of participants who use BDS.

A comparison of Chi-Square test results in Table 20a and Table 20b, shows that with the exception of current accounts (and only for comparisons between BDS users and non users), there are significant differences between users and non users of either microcredit or BDS across all four types of business accounts examined (i.e. savings, current, investment, and fixed deposit accounts). For example, as pertains to savings types of business accounts, the difference between users and non users of either microcredit or BDS is significant ($\chi^2 = 15.74$, $p < 0.001$ and $\chi^2 = 6.39$, $p < 0.05$ respectively). For fixed deposit types of accounts, there is also a significant difference between participants who are users and participants who are non users of either microcredit or BDS ($\chi^2 = 16.23$, $p < 0.001$ and $\chi^2 = 9.25$, $p < 0.05$). Overall the differences between users and non users of microcredit are more pronounced than the differences between users and non users of BDS, across the various types of business accounts examined.

In summary therefore, participants' businesses display almost similar characteristics, which is likely indicative of a shared habitus, regardless of whether their owner-managers use microcredit or BDS jointly or singly. This is the case for most of the attributes considered above, with the exception of access to the types of business accounts explored. Unlike fixed deposit and other accounts held for investment purposes, MSEs' savings accounts play a strategic role in that they are often a precondition for accessing MFI supplied microcredit and also serve as implicit collateral against the same (see Armendariz and Morduch, 2010, Morduch and Haley, 2002). In addition, funds held in savings accounts may be drawn on whenever there is need to raise additional working capital.

Table 20a: Business characteristics: pair-wise comparisons of credit users and non users [c1& c2 vs. c3&c4]

Variable (nominal)	Response category	Participant category				(N)	Total	Chi-Square value	
		c1&c2 [credit]		c3&c4 [no credit]					
		(n=80)		(n=80)					
Nature of business activity	trade	38 (48%)		35 (44%)		(160)	73 (46%)	2.67	
	agribusiness	8 (10%)		10 (13%)			18 (12%)		
	personal services	15 (19%)		12 (15%)			27 (17%)		
	food related	7 (9%)		13 (16%)			20 (13%)		
	technical	7 (9%)		6 (8%)			13 (8%)		
	craft	5 (6%)		4 (5%)			9 (6%)		
Industry affiliation	goods	62 (78%)		61 (76%)		(160)	123 (77%)	0.04	
	services	18 (23%)		19 (24%)			37 (23%)		
Type of ownership	sole proprietorship	50 (67%)		59 (75%)		(160)	109 (71%)	3.43*	3.74
	limited company	3 (4%)					3 (2%)		
	partnership	22 (29%)		20 (25%)			42 (27%)		
Stage in business cycle	discovery	5 (6%)		3 (4%)		(79)	8 (5%)	2.61	
	start up	6 (8%)		12 (15%)			18 (11%)		
	newly established	26 (33%)		26 (33%)			52 (33%)		
	established	22 (53%)		39 (49%)			81 (51%)		
Hold business account	yes	67 (84%)		36 (51%)		(80)	103 (69%)	18.13***	
Type of business account	savings	49 (79%)	(61)	27 (44%)	(62)	(123)	76 (62%)	15.74***	
	current	18 (58%)	(31)	10 (23%)	(44)	(75)	28 (37%)	9.71**	
	investment	4 (24%)	(17)		(34)	(51)	4 (8%)	8.68**	
	fixed deposit	11 (46%)	(24)	1 (3%)	(35)	(59)	12 (20%)	16.23***	

* significant at p<0.10; ** significant at p<0.05; *** significant at p<0.001

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

Table 20b: Business characteristics: pair-wise comparison of BDS users and non users
[c1&c3 vs. c2&c4]

Variable (nominal)	Response category	Participant category				(N)	Total	Chi-Square value	
		c1&c3 [BDS]		c2&c4 [no BDS]					
		(n=84)		(n=76)					
Nature of business activity	trade	40 (48%)		33 (43%)		(160)	73 (46%)	3.37	
	agribusiness	10 (12%)		8 (11%)			18 (11%)		
	personal services	13 (16%)		14 (18%)			27 (17%)		
	food related	12 (14%)		8 (11%)			20 (13%)		
	technical	4 (5%)		9 (12%)			13 (8%)		
	craft	5 (6%)		4 (5%)			9 (6%)		
Industry affiliation	goods	65 (77%)		58 (76%)		(160)	123 (77%)	0.03	
	services	19 (23%)		18 (24%)			37 (23%)		
Type of ownership	sole proprietorship	52 (67%)		57 (75%)		(154)	109 (71%)	1.39	
	limited company	2 (3%)		1 (1%)			3 (2%)		
	partnership	24 (31%)		18 (24%)			42 (27%)		
Stage in business cycle	discovery	3 (4%)		5 (7%)		(159)	8 (5%)	6.15	5.43*
	start up	5 (6%)		13 (17%)			18 (11%)		
	newly established	28 (34%)		24 (32%)			52 (33%)		
	established	47 (57%)		34 (45%)			81 (51%)		
Hold business account	yes	62 (76%)		41 (60%)		(150)	103 (69%)	4.05**	
Type of business account	savings	50 (71%)	(70)	26 (49%)	(53)	(123)	76 (62%)	6.39**	
	current	13 (39%)	(33)	15 (36%)	(42)	(75)	28 (37%)	0.11	
	investment	4 (17%)	(24)		(27)	(51)	4 (8%)	4.88**	
	fixed deposit	11 (36%)	(31)	1 (4%)	(28)	(59)	12 (20%)	9.25**	

* significant at p<0.10; ** significant at p<0.05; *** significant at p<0.001

Legend:

c1= participant MSE owner-managers in receipt of microcredit and BDS

c2= participant MSE owner-managers in receipt of microcredit without BDS

c3= participant MSE owner-managers in receipt of BDS without microcredit

c4= participant MSE owner-managers in receipt of neither microcredit nor BDS

Figure 8: Type of participants' trade activity

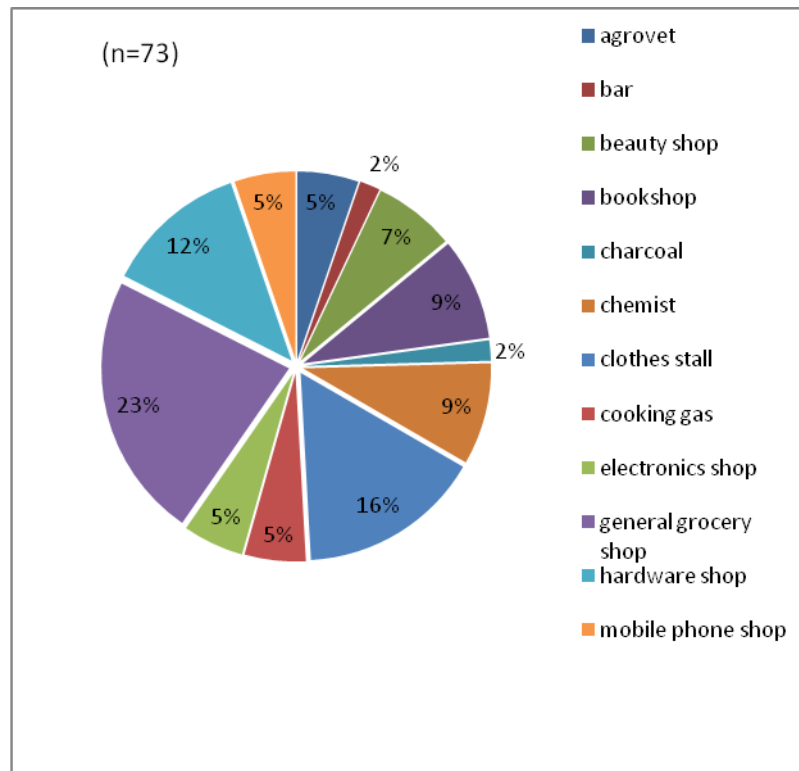
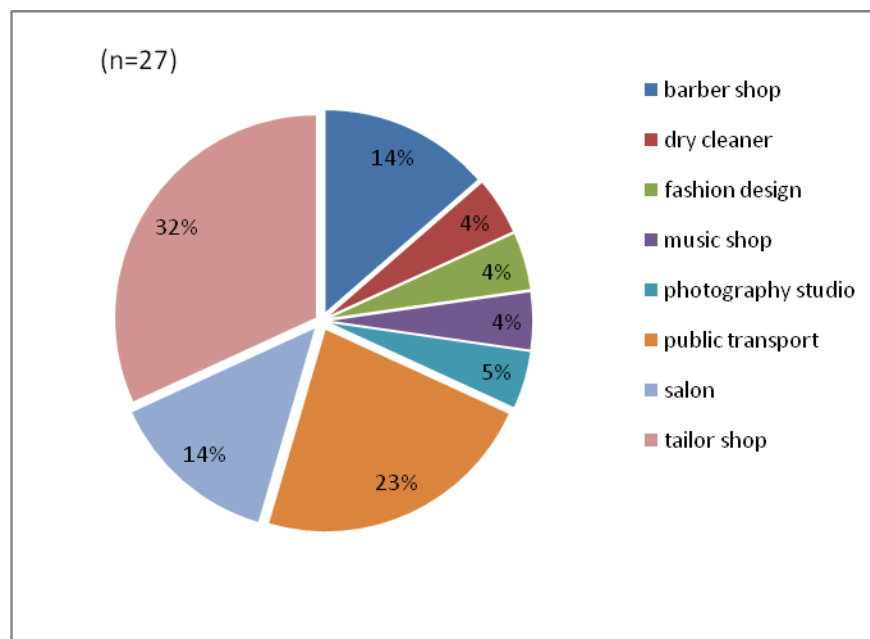


Figure 9: Type of participants' personal services businesses



6.3 Usefulness of Microcredit to MSE Owner-managers

In an attempt to assess the usefulness of microcredit, as economic capital, to the participant owner-managers of MSEs, several factors are elicited, namely; the sources of credit commonly accessed by MSE owner-managers, the motive(s) for taking a loan, and the perceived impact on participants' MSEs upon receipt of credit, among other considerations. The analyses in this section provide answers to Research Questions 1, 2 and 3 as stated in chapter one.

6.3.1 MSE owner-managers' sources of credit

Table 21a below presents participants' responses to a question about the various sources of credit they have used. According to this Table, the sources of credit identified by MSE owner-managers include; personal savings, family and friends, MFIs, various forms of group schemes (e.g. women's groups), and government schemes, among others.

Amongst the various sources of credit reported, MFIs are the most commonly used source of credit among MSE owner-managers, representing almost one third (29 per cent) of the total 160 responses. The second most common source of credit is personal savings (21 per cent), while commercial banks come third with 18 per cent of the participant response cases. Following the popularity of MFI loans among MSE owner-managers, several mainstream commercial banks have in the recent past introduced new loan products targeting the MSE sector, which previously the banks had regarded as being too risky to lend to (see chapter two section 2.3). The above results may be an indicator that the evolution of microfinance (as a form of banking for MSEs) has injected competition in the overall banking sector to the extent that MSE owner-managers can now, unlike previously, source credit across a range of options (Dellien, et al. 2005; Ngugi, 2009). However in view of competing logics driving the practice of microfinance (see chapter three section 3.3.2), this development may not be in the best interest of the MSE sector.

Table 21a: MSE owner-managers' sources of credit

Variable (nominal)	Response category	Responses ^a	
		Number (%)	Percentage of cases (%)
Source of credit	personal savings	37 (20.6%)	46%
	commercial bank	32 (17.8%)	40%
	family & friends	18 (10.0%)	23%
	NGO scheme	3 (1.7%)	4%
	group scheme	28 (15.6%)	35%
	microfinance scheme	53 (29.4%)	66%
	government scheme	9 (5.0%)	11%
Total		180 (100%)	

^a Percentages and totals are based on multiple responses rather than cases.

6.3.2 MSE owner-managers' borrowing motives

During interviews participants cited various reasons for taking loans, ranging from the need to raise working capital, seize an emerging business opportunity, to the need to meet household expenses, among others. The following table, Table 21b, shows that nearly one third (29 per cent) of the MSE owner-managers cite the need to finance acquisition of business assets as one of their reasons for taking credit. The second most common motive for taking loans among the participants is the desire to increase stocks (27 per cent) while the third most common motive is the need to raise capital (18 per cent).

A few of the participants identify several other reasons for taking loans. For example some want a loan in order to repay another loan (4 per cent). A similar proportion (4 per cent) require loans for the personal purpose of paying school fees, while 2 per cent use the loan to meet household expenses. These results relate closely to the results of interviews with MFI representatives on the issue of applicants' motives for seeking loans (see Text box 1).

Text box 1: loan motives

Interviews with MFI representatives identified a range of reasons offered by loan applicants. Some of the reasons commonly cited include; need to start business, finance business expansion (i.e. diversify stock), increase working capital, repay another loan (often stated as 'topping up' a loan), and meet household expenses including medical expenses.

Table 21b: Motivation for taking a loan

variable (nominal)	Response category	Responses	
		Number (%)	^a Percentage of cases (%)
Motive for taking loan	capital	37 18.0%	47%
	acquire assets	59 28.8%	75%
	increase stock	55 26.8%	70%
	seize opportunity	27 13.2%	34%
	repay another loan	8 3.9%	10%
	household expenses	5 2.4%	6%
	school fees	8 3.9%	10%
	other motive for taking loan	6 2.9%	8%
Total (N=80)		205 100.0%	

^a Percentages and totals are based on multiple responses rather than cases.

Although the need to start a business is elicited as one of the motives for making loan applications, interviews with MFI representatives reveal that most MFIs discourage financing start-ups. MSE owner managers who have been in business for a while find it much easier to access loans than those starting up. To reinforce this point, in an excerpt of interview with one MFI representative, it was stated;

“Every banker is afraid of financing start ups, because this is an idea that not been tested. But if this individual was actually in a group we will not discriminate on whether you are just starting or not. So in that group set up, whether you are starting or not, for us that is not a factor. If whatever you are doing will enable you to pay and the group members are guaranteeing you, that is what counts. When they sign they say that if this person fails to pay we will pay. So he just needs to get the consent of the group and he will get the loan whether it is start up or not.”

Given the informality and inseparability of the owner-manager and the enterprise in sole proprietorships (earlier noted as the most common legal business form among participants, see Table 20b in section 6.2 above), it is not surprising that some of the participants cite personal issues (e.g. household expenses, medical bills, and school fees) as reasons for taking loans. It is however likely that usually these personal kinds of reasons are not stated expressly when filling in loan application forms. Interviews with some of the MFI officials on whether there are instances where clients have diverted loan funds reveal a passive attitude (see Text box 2).

Text box 2: concern for diverting use of loan

“It does not bother us whether someone diverts the money or not. Remember the structure we have set up. It is action oriented. This person who has taken a loan, remember he is still saving weekly. And the loan repayment structure is weekly, so whether you divert your loan or not, for us it not a problem. The problem [arises] when you start defaulting, then there we actually move in and start taking measures and implementing a few things.. but it is usually to detriment of the customer if they were to divert. As long as they are continuously paying, the understanding here is ..remember, it’s a social element. In a group it is possible for people to say I know this person, this is where he does his business, this is where he lives.. and I feel comfortable to guarantee him. If he defaults then I actually to go to him and say: ‘Hey you are closing my path! You have to pay up.’ So for us the social element is the foundation of everything. As long [as] trust is maintained, we expect the members to ensure that their fellow group members do not divert their interests, which can work against them.”

The sentiments reported in Text box 2 appear to reinforce the view that suppliers of economic capital (MFIs) are increasingly using social capital to mitigate default risk regardless of whether microcredit is helping MSE owner managers or not.

6.3.3 Microcredit terms and conditions

Turning to the terms and conditions of microcredit, Table 21c below shows that, more than two-thirds (68 per cent) of the participants report having accessed loans which they

have had to secure with various forms of assets. Of the total (80) participants who have used microcredit, only 15 (17 per cent) reported having access to unsecured loans. It is observed that 5 per cent of the participants' loans are specifically 'group secured'. The term secured loan, implies credit that attracts tangible forms of collateral from applicants. Besides collateral, the other important condition attached to microcredit is the rate of interest. Table 21c reveals that 44 per cent of the participants pay a quoted interest rate that is less than 15 per cent per annum on their loans, while close to a similar proportion (41 per cent) of participants pay interest rates ranging from 15 per cent to 20 per cent per annum. The Table further reflects that 15 per cent of the participants report paying interest rates that are higher than 20 per cent per annum. All together more than half (56 per cent) of the participants identify to be paying rates of interest (on loans) that are higher than 15 per cent every year. Statistics from the Central bank of Kenya show that, as at the time of the interviews (January to March 2009), the annual base lending rate was 8.7 per cent. In light of this therefore, the interest rates reported by MSE owner-managers appear excessive.

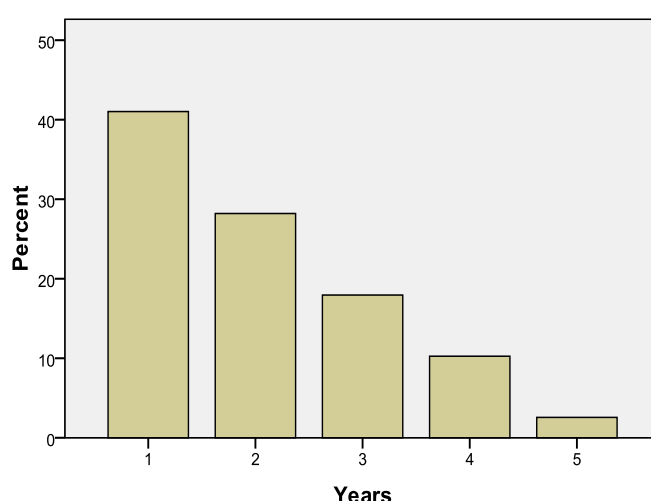
Table 21c: Terms and conditions of microcredit as reported by MSE owner-managers

Variable (nominal)	Response category	Number (N=80)		Percentage (%)	Cumulative percentage (%)		
Type of loan	asset secured	60		68%	68%		
	group secured	4		5%	73%		
	bank overdraft	9		10%	83%		
	unsecured	15		17%	100%		
Quoted annual interest rate	below 15%	35		44%	44%		
	15%-20%	33		41%	85%		
	21%-30%	11		14%	99%		
	above 30%	1		1%	100%		
		(N)			Range	Mean	Std. Deviation
			min	max			
Term of loan		(78)	1	5	4	2.03	1.12
Number of loans held previously		(28)	1	4	3	2.82	0.82

MFI loans tend to be short term. Although the average loan term is 2 years ($\sigma = 1.12$), most participants (40 per cent) had loans lasting just one year (see Table 21c and Figure 10 below). According to Table 21c, at the time of the interviews, most participants reported having accessed microcredit once, with only 28 out of the 80 (35 per cent) participants reporting to have accessed credit previously. Participants in this group, on average, report to have used microcredit on 2.83 ($\sigma = 0.82$) occasions previously.

As reflected earlier in chapter two, demand for collateral is one of the factors that make commercial bank loans inaccessible to MSE owner-managers. Initially, as a form of banking microfinance was intended to be collateral free (see discussion in section 3.3 of chapter three) specifically to serve the needs of the MSE sector. The results above from MFI borrowers however do not appear to be consistent with this. It is noted that the data above is based on the reports of structured interviews with MSE owner-managers. It is therefore important to examine the views of MFI representatives (as providers of microcredit) on the general credit terms, including some of those matters highlighted above. The following discussion is based on the views of MFI representatives, elicited during open-ended interviews, on credit related issues such as; collateral, interest rates, loan term, average loan amounts given, and eligibility, among others.

Figure 10: Term of loan (years)



Text box 3 presents a list of the common forms of collateral identified during interviews with MFI representatives. It is noted that the primary collateral pledged is a group guarantee, which is a form of social capital as described by Bourdieu (1977) and expanded upon in chapter three in the microfinance context. However this may imply that group guarantees appear to serve as collateral of the last resort given that only 5 percent (see Table 21c) of MSE owner-managers cite it as a form of collateral. Used as collateral, group guarantees mean that fellow group members agree to pay the loan in

Text box 3: form of collateral

The acceptable forms of collateral vary depending on the sector where an MFI mainly draws its clients from. However the following collateral forms are reported; group guarantees, chattels, motor vehicles, member savings, houses, shares, and execution of debentures over assets.

total in the event of the borrower defaulting. This may not however mean that a person can access a loan on account of being a member of a group. What it may imply is that an applicant would probably stand a better chance to secure a loan if a member of a group than otherwise. Further it appears that the position initially enjoyed by social capital in the field of microfinance has changed, at least in Kenya.

Beside group guarantees, the second most common form of collateral is members' savings with their particular MFI. Interviews with MFI representatives reveal that there is a common practice (mimetic processes as suggested by neo-institutional theory) within the microfinance industry to require that a loan applicant must have been a member (client of an MFI) for a minimum of six months. Additionally, the applicant is required to have commenced weekly savings for not less than eight weeks before applying for the first loan. From the list of collateral items in Text box 3 it appears that there is no such thing as a collateral free

loan. As one interviewee (a representative of one of the leading MFIs) put it;

“Collateral varies, it could be chattels, cars, house, shares...but you find that the loans have to be fully covered.”

Turning to the amounts of money MFIs issue as loans to successful MSE owner-manager loan applicants, there is a wide variation (see part (a) of Text box 4) .

Interviews with MFI representatives indicate that for MSE owner-managers who are first time borrowers, the accessible loans tend to be relatively small amounts, usually below KES 20,000 (AUD \$ 400). In general however, with the exception of MFIs involved in wholesale microfinance (MFIs which lend to other MFIs involved in retail banking), the interviews reveal that most MFIs in the retail segment of the market tend to offer small amounts of money in loan form. For example at what the MFIs refer to as the upper end of the market, the upper limit for loan amounts is KES 100,000 (AUD \$ 2000).

Text box 4: amounts, term, and interest rates

- a) The average loan amounts reported by MFI representatives at the lower end range from KES 10,000 to KES 40,000 (AUD \$ 200 to AUD \$ 500). At the upper end the amounts range from KES 50,000 to KES 100,000 (AUD \$ 1000 to AUD \$ 2000).
- b) The minimum term for loans is 3 months while the maximum reported is 36 months (3 years). There is no grace period given before commencement of loan repayment.
- c) The lowest rate of interest rates quoted is 15 per cent p.a. while the highest is 72 per cent p.a. The most commonly reported (3 out of the 9 MFI representatives interviewed) interest rate is 18 per cent p.a.

While the amounts of money given may seem modest, the criteria used to determine eligibility are fairly stringent. Interviews with some of the MFI representatives identify several factors that determine who accesses and who does not successfully access microcredit.

The factors range from applicants' personality attributes and MSEs' cash flow streams to group management, among others (see Text box 5) for an elicited list of possible eligibility criteria (this list is not necessarily exhaustive).

Part (b) of Text box 4 shows that MFI representatives report that their loans are mainly short term (one year) with the longest reported loan term being 3 years. The average interest rate charged on loans is reported to be 18 per cent per annum (see part (c) of Text box 4). These observations identify closely with data gathered from MSE owner-managers as reported earlier in this chapter. Further, interviews with some of the MFI representatives reflect that for most of the loans, repayment takes place on a weekly basis. Although there are variations as one interviewee reveals;

Text box 5: loan eligibility criteria as elicited from MFI representatives

- Businesses' ability to pay
- Constant cash flow streams
- Sector reliability
- Credit history of applicant
- Group cohesion
- Person's character
- Collateral
- Attended training for at least 8 weeks
- More than 6 months in business
- Evidence of employment
- Consistency in savings
- Attendance at group meetings
- Account activity
- Account holder
- Credit worthiness of applicant
- Above 18 years of age
- Located within accessible radius
- Business plan
- Purpose for loan
- 3-4 years of financial statements
- Credibility of management

"You see because of the fact that loans are tailor made, there are instances of recovering weekly, depending on the type of loan, or monthly or cycle of the source of income."

In the statement above, the term 'cycle of the source of income' is made in reference to the seasonal nature of agriculturally related business activity. For example, loans given to sugarcane or maize farmers to either buy farm inputs or simply meet farming expenses are recovered in full once the crop matures, which may be once or twice in a year.

Returning again to the interview protocol used with the MSE owner-managers, Table 22 below presents summary data on MSE owner-managers' attitudes towards the terms and conditions of credit offered by MFIs in general. According to Table 22, the majority (38 per cent) of the participants strongly agree and 26 per cent agree that the weekly loan repayment mode constrains their business operations whilst 8 per cent of participants disagree strongly on this same issue. With a t-test value of -3.41 at $p < 0.05$, there is a significant difference between MSE owner-managers who agree and those who disagree that frequency of loan repayment is a constraint to their businesses. With regard to interest rates, participants' opinions seem to be divided, with 44 per cent either agreeing or strongly agreeing, 28 per cent neither agreeing nor disagreeing, and 27 per cent either disagreeing or strongly disagreeing, that the interest rate charged is affordable. The difference between those MSE owner-managers who agree and those who disagree on the affordability of interest charged is highly significant (t-test = -6.07, $p < 0.001$).

Table 22: MSE Owner-managers' attitude towards terms and conditions of microcredit

Attitude statement	Response categories					Total (N)	t-test value
	strongly agree	agree	neither agree nor disagree	disagree	strongly disagree		
Frequency of loan repayment constrains business	30 38%	21 26%	13 16%	9 11%	6 8%	(79) 99%	-3.41**
Interest rate charged is relatively affordable	12 15%	23 29%	22 28%	17 21%	5 6%	(79) 99%	-6.07***
Credit providers willing to renegotiate terms	5 6%	7 9%	16 20%	5 6%	46 56%	(79) 99%	-5.41***
Happy to continue with loans to finance business	9 11%	18 23%	29 36%	10 13%	13 16%	(79) 99%	-5.61***

* significant at $p < 0.10$; ** significant at $p < 0.05$; *** significant at $p < 0.001$

The participants' ambivalence on the issue of interest rates could be a reflection of the difficult situation some of them find themselves in. Such ambivalence could possibly point to a need to question the legitimacy of microcredit schemes. Even though participants may be in genuine need of credit, they may not have many alternatives to source from. This is partly because the terms and conditions of credit in the mainstream commercial banks, compared to those of their MFI counterparts, are out of reach for most MSE owner-managers (Frank, 2008). Further in an interview with a representative from one of the MFIs, the officer states;

"First and foremostforget about what is happening now where banks are going outright to get customers, we [have] been able to serve customers who would never have been reached by a financial institution! Some of the customers do not even have personal bank accounts [only group] and look at the

commercial banks now, to qualify for a loan you must be their customer [i.e. must have an account]. ”

Table 22 further shows that MFIs are not willing generally to renegotiate credit terms, with 62 per cent of the participants disagreeing that there could be such a possibility. Additionally, a majority of participants (36 per cent) are non committal (i.e. neither agree nor disagree) on whether they wish to continue using debt (credit) as a way of financing their business operations. With a t-test of -5.41 at $p < 0.001$ and t-test of -5.61 at $p < 0.001$ respectively, the difference between MSE owner-managers who agree and those who disagree, on either MFIs' willingness to renegotiate loan terms or their own intention to continue using loans as a means of financing business, is highly significant.

Of the 80 participants who identify as users of microcredit, a significant majority (90 per cent) hold a perception that their businesses have improved in some way as a result of access to credit (see Table 23a). Opinions vary widely among participants on the exact ways in which the performance of their businesses is believed to have improved.

Table 23a shows that the perceived improvements in performance range from perceived increases in profits to increases in staff numbers. For example, according to this Table, 20 per cent of the participants perceive that their businesses enjoy higher profits after the loan, while a further 15 per cent of them perceive increases in either savings or assets.

The Table further reveals that 12 per cent of the participants report to have hired more staff since they began to use credit while a similar proportion (12 per cent) perceives a reduction in debt. Although the MSE owner-managers' perceptions on the impact of microcredit on the performance of their businesses appear positive, one has to take caution given the fact that most of the judgments could be merely intuitive. As earlier noted (see section 6.2 in this chapter) most participants' businesses are informal and operate as sole proprietorships. As such, most MSE owner-managers probably keep basic sales records which may not be sufficiently sophisticated to trace the real impact of microcredit on their enterprises.

Table 23a: Perceptions of how MSEs' performance was impacted after accessing loans

Variable (nominal)	Response category	Responses	
		Number (N)	Percentage of cases (%)
Performance improved with loan?	yes	72 90%	90%
Ways performance improved	higher profits	55 20%	76%
	increased savings	43 15%	60%
	reduced debt	35 12%	49%
	increased liquidity	22 8%	31%
	reduced dependence on overdrafts	8 2%	11%
	increased investments	17 6%	24%
	acquired more assets	42 15%	58%
	new branches	19 7%	26%
	hired more staff	33 12%	46%
	other ways performance improved	8 2%	11%
Total (N=80)		282 (100.0%)	

^a Percentages and totals are based on multiple responses rather than cases.

Results of interviews with MFI representatives on how microcredit is perceived to have helped MSEs are full of self praise. Text box 6 provides a synthesised list of what the MFI representatives (as providers of microcredit) think is their contribution to the MSE sector as elicited during open-ended interviews with them. A closer examination of their perceived contribution reveals that MFI

Text box 6: MFI representatives' perceptions on the impact of credit on their MSEs

- Established stable businesses
- Raised standard of living
- Improved education of children and extended families
- Created higher bargaining power
- Created a savings culture
- Facilitated meeting of unforeseen emergencies
- Provided access to credit facilities
- Provided access to banking services
- Nurtured entrepreneurial spirit
- Assisted in acquiring houses
- Provided access to business premises
- Provided access to personal counselling services

representatives feel that microcredit has not only helped improve recipient MSE performance, but has also helped transform the lives of their clients. For example from information in Text box 6, MFI representatives state that some MSE owner-managers (clients) have acquired houses, enjoy better standards of living and have increased their bargaining power. Similar claims are evident from the account found in Text box 7 of a

‘success story’ recorded during an interview with a representative of one of the leading MFIs.

Text box 7: case of success story from an MFI’s perspective

“I will give you an example of a client I started with... this is in a place called ‘Chogoria’ in ‘Meru’. This was in the year 2000, this ‘mama’ had a small shop and her first loan was just KES 15,000, which she repaid within 6 months, which she used to boost the business. Then she came for a second loan of 30,000. She again put it in the shop and again paid in 6 months, went for 45,000, again paid within 6 months, and then went for 75,000 and when she took75,000, now she diversified the business and opened a small butchery next to the shop. She also repaid the 75,000 within 6 months. After that she also started doing some little farming. Then ...she took 120,000. Now she bought a dairy cow [to] the home and started also planting vegetables on commercial purposes. Then from 120,000 she went to 150,000 where she diversified again and opened a hotel! And then these three were running concurrently and also the farming business. Then from 150,000 we gave her 250,000. She repaid within 9 months. She took 300,000, paid within 9 months, went to 450,000 paid within 9 months, she took 600,000 and here now at 300,000 she started supplying meat to schools around the area. At 450,000 she now bought more dairy cows. As we speak now she has 10 dairy animals under zero grazing [non free range form of livestock farming]. She is running the shop, the hotel, the butchery, and doing horticultural farming! She has also improved her coffee and tea farming. So from 600,000 which she paid within 9 months, she took 900,000 which [was] paid also in 9 months, 900,000 she has taken now twice. She has finished the last 900,000, she is now asking for 1 million. She has bought a lorry and now she is going to ‘Isiolo’ to buy animals.

You find that at the hotel, she [took in] some members [from the] group where she was before..she has 10 employees at the hotel, although she is the manager there. At the shop she has employed one person, at the butchery she has employed 5 people, and then at home she has 6 people working at the farm. So we are talking of more than 20 people employed by her. All this has happened within a period of about 10 years!”.

Given the weight of the claims above, it is important to seek an independent opinion of the perceived effect of microcredit on MSEs. Asked whether microcredit is helping MSEs, evidence from the interviews conducted with independent researchers in the MSE sector in Kenya presents a rather different picture. Details of the independent researchers’ views appear in the extracts from interview transcripts presented in Text boxes (8a) and (8b). The views held by the two scholars point to one thing, that even though microcredit is increasingly becoming accessible to MSEs, its terms and conditions have not served to encourage growth of the sector.

Text box 8a: views on effect of microcredit on MSEs (researcher - I)

“The simple answer is no. They have helped to sustain some people in their businesses. But to a large extent they have not really contributed to growth. Many of the microfinance programs that are there have methodologies that in fact at times constrain people from growing. Because of the nature of microfinance - that you are lending to people who are high risk, people who don't have collateral - and therefore you are forced into methodologies that are either group based or solidarity group kind of things. And the amounts are small enough that they have enabled the few real drivers to breakthrough and do well, but by and large it has simply managed to sustain the economies that were already there. And if you were to come back in ten years, this is my own hypothesis, and look to that woman trader or man who is doing vegetable(s), this and that, you will probably find them in the same place if they are still alive! Therefore the question is growth, is it contributing to growth? This is the thing that you are asking. The truth is they are not.”

Text box 8b: views on effect of microcredit on MSEs (researcher - II)

“Well you know the concept of microfinance is a good concept, which of course started in Bangladesh by that Professor Yunus, but then when that concept was introduced in Kenya, it actually did not follow that particular model, the original model. Microfinance institutions in Kenya operate more or less like commercial banks. Although they give credit based on group lending, but then in addition they require these groups to save with the institution - say up to six months, and they need also to have [a] form of collateral. They cannot really get credit without collateral. And usually the kind of collateral they want is immovable assets; they do not want anything that is movable like machines for example, because people should actually be able to use machines as collateral. But then you find that microfinance institutions want immovable assets like land and titles, items that most of the micro and small enterprises - they do not have. So basically because the bank is close by, whatever little money they get they can save, and even if they were to borrow, they just borrow very little amount of money. It is not really the kind of money that can make them buy the kind of machines that they may want. So then they become impaired in terms credit accessibility...

..then again of course you may not be able to borrow much. Because if you are able to borrow more money, then you can actually wean off yourself from accessing credit from microfinance institutions and then you can go to commercial banks where the interest rates are low. However because they are only able to borrow a limited amount of money, that may not be able to actually push them out [of] that vicious cycle. So they just remain within the vicious cycle. So in my view actually they are not better off! Of course microfinance institutions make those claims because they want donors to continue giving them money and pretend that things are OK. When you ask them the number of enterprises they are giving credit to.. they give you a number, but then they do not tell you how many of the enterprises they are supporting have actually grown over time, across the ladder from micro to small to medium and even to large. So probably what they do is just keep on giving credit to any upcoming enterprises and then they say” ‘You see we are supporting these guys, we have given them money.’ But in essence you do not really see the impact that they are actually creating to the MSEs.”

In summary, from the foregoing evidence it appears that MFI supplied microcredit to MSEs comes not only with highly restrictive terms, but also at a relatively prohibitive cost. Even though MSE owner-managers perceive that some positive changes have taken place in their businesses, this may not be evidence-based and may not hold much truth. The data above show that on average, MSE owner-managers are accessing credit at an interest rate of 18 per cent per annum or higher. Given the kind of business activities (mainly trade in goods, as seen earlier in this chapter in section 6.2) most of them are engaged in; it may not be possible that their enterprises are earning a return on investment that is higher than their cost of credit. From a neo-institutional perspective it could be argued that adoption of the notion of self-sufficiency appears to create normative pressure for MFIs, which in return seem to apply coercive pressure (through stringent microcredit terms) to MSE owner managers (clients). On the basis of the univariate analysis undertaken in this chapter, the question of whether microcredit is useful to MSEs is not fully answered. The following section explores this issue from a multivariate perspective using logistic regression.

6.3.4 Testing for the usefulness of microcredit

As consumers, MSE owner-managers' intention to either borrow and/or continue borrowing (repeat buying behaviour), could be influenced largely by their past experiences with MFIs' terms and conditions of lending. The requirements for documentation and demand for collateral associated with commercial banks' credit access make it not only difficult but also impractical for MSE owner-managers to use this source of capital. On the contrary, MFIs with MSEs as their primary market offer credit the terms of which are designed to suit this market. Notable among MFIs' credit access terms is that they attract minimal documentation and more importantly are 'free' of any tangible asset-based collateral. However, some of the other terms, for example, the short term nature of loans and the relatively high interest rates (compared to commercial bank rates), appear restrictive and exploitative. MSE owner-managers, who perceive microcredit terms as friendly and/or have previously experienced an improvement in their businesses following use of microcredit, are likely to look to this source whenever they need additional capital. Consistent with Research Question 3 (cited in chapter one) the following question is proposed for testing;

Are participant MSE owner-managers who are likely to continue using microcredit to finance their business operations rather than for personal use,

more likely to have accessed microfinance rather than a commercial banking product, have provided no collateral, have a longer loan term and have borrowed previously?

Test-model on MSE owner-managers' likelihood of continued usage of microcredit

The logistic regression undertaken in this regard is algebraically expressed as follows;

$$\text{Logit}(p) = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7$$

Where:

Symbol	Variable name	Variable label
$\text{Logit}(p)$		Probability of continuing to use microcredit
X_1	MFILoan	MFI source of loan (0/1)
X_2	LoanType	Type of loan(0/1)
X_3	LoanTerm	Loan term (0/1)
X_4	FirstLoan	First business loan(0/1)
X_5	LnMtvBus	Loan motive business (0/1)
X_6	IntrstRate	Interest rate per annum (normalised)
X_7	SizeBus	Size of business (normalised gross income)

Dependent Variable: The dependent variable for the test of the above proposition is the intent to continue using microcredit to finance business operations. This is a dichotomous variable coded (1) to represent the likelihood of continuing to use microcredit and (0) to represent a lack of intent to continue using microcredit.

Explanatory variables: There are six variables which are considered likely to influence participant MSE owner-managers' intention of continuing to use microcredit; namely source of loan, type of loan, loan term, whether the current loan is the first business loan received, the motive for seeking the loan, and the interest rate on the loan. Except for loan term and interest rate (Roslan and Karim, 2009, Godquin, 2004), the other variables have not been previously tested in the context stipulated here and as such are unique to this study. With the exception of the interest rate the other independent variables are binary in nature and the descriptive analysis informs the coding, which is as follows:

Binary variable name	Variable label	Code
MFILoan	MFI source of loan	= (1) if MFI, otherwise (0)
LoanType	Type of business loan	= (1) if secured, otherwise (0)
LoanTerm	Term of loan (short-term if term is less than 3 years)	= (1) if short-term, otherwise (0)
FirstLoan	First business loan	= (1) if yes, otherwise (0)
LnMtvBus	Loan motive relates to business	= (1) if business, otherwise (0)

Originally the variable interest rate was measured on an ordinal scale to permit ease of completing the interview protocol and also guide participants when in difficulty to recall exact interest rate figures. The scale used ranged from 1 to 4; where (1) = rate less than 15 per cent, (2) = rate between 15 per cent-20 per cent, (3) = rate between 21 per cent - 30 per cent, and (4) = rate greater than 30 per cent per annum. Before the analysis, this variable is normalised to achieve a mean close to zero and a standard deviation of one, to enable correlation-based analysis (Gow, 2010).

Control variable

The control variable in this test is size of business. Firm size, often used as a control variable (see Akoten, 2007b, Jayawarna et al., 2007), is measured through participant owner-managers' estimates of their businesses' gross income (in KES) guided by an ordinal scale. The scale ranges from 1 to 5 with (1) = gross income below 20,000, (2) = 20,000- 30,000, (3) = 31,000 – 40,000, (4) = 41,000 – 50,000, and (5) = gross income above 50,000. Before entering this variable into the analysis the scores are normalised to a mean of zero and a standard deviation close to one (Gow, 2010).

In this test a logistic regression technique is used due to the binary nature of the dependent variable. Of the entire sample of 160 cases, there are 80 participant MSE owner-managers who use microcredit, which represents the sub-sample used for testing this question. Participant MSE owner-managers' intention or otherwise to continue using microcredit is the dependent variable, while the independent variables are as described above. First, descriptive statistics for all variables are presented, followed by correlation and summary logistic regression results.

Table 23b presents pair-wise comparisons of participant MSE owner-managers who intend to continue using microcredit to finance business operations and those who do not intend to do so. There is a significant difference ($t\text{-test} = 1.80, p < 0.05$) in interest rates reported by participant MSE owner-managers who intend to continue borrowing and those who do not. This implies that high cost of borrowing is a deterrent to MSE owner-managers who would otherwise wish to source credit to finance their business interests. Table 23b also shows that businesses of participant MSE owner-managers who do not intend to continue borrowing are larger than businesses of their counterparts who intend to continue borrowing ($\bar{x} = 0.34, \sigma = 1.02, sk = 0.52$ and $\bar{x} = 0.15, \sigma = 1.00, sk$

=0.66, respectively). There is no significant difference between the two groups however (t-test =0.78, p =0.220).

Table 23b shows that of the 80 participant MSE owner-managers who use microcredit, close to three quarters or 56 (71 per cent) intend to continue borrowing, while 24 (29 per cent) do not. The Table reveals that for two thirds (66 per cent) of the participant MSE owner-managers, their source of credit is MFIs. Of these, at least three quarters (75 per cent) intend to continue using loans while 25 per cent do not intend to do so. The difference is however not significant ($\chi^2 = 1.25$, $p = 0.132$). In the case of 59 (75 per cent) participant MSE owner-managers, whose current loans are secured (i.e. collateral given to lender), 70 per cent of them express intention to continue using loans compared to 30 per cent who do not. With a Chi-square value of 0.22 and a $p = 0.314$, this difference is not significant.

Table 23b further shows that there are 53 (67 per cent) of the participant MSE owner-managers who were servicing a short term loan at the time of the interviews. Of these, 38 (72 per cent) intend to continue borrowing while 15 (28 per cent) do not intend to do so. There is however no significant difference between the two groups ($\chi^2 = 0.05$, $p = 0.410$). Table 23b reveals no significant difference between participant MSE owner-managers who intend to continue using loans and those who do not, where participants are in receipt of their first loan ($\chi^2 = 0.92$, $p = 0.169$). Of the 80 participant MSE owner-managers, nearly two thirds (65 per cent) report to be servicing their first loan at the time of the interviews. Of these, a majority (75 per cent) intend to continue borrowing while 25 per cent do not intend to do so. Turning to borrowing motives, Table 23b shows that of the 80 participant MSE-owner-managers in receipt of microcredit, a majority (87 per cent) sought it for business rather than for personal needs. Of these, a majority (71 per cent) intend to continue using microcredit while the remainder (29 per cent) do not intend to do so. There is however no significant difference between the two groups ($\chi^2 = 0.01$, $p = 0.474$).

Table 23b: Descriptive statistics for variables included in testing for the likelihood to continue using microcredit (N=80)

	Intend to continue using credit to finance business operations (n=56)					Do not intend to continue using credit to finance business operations (n=24)					t-test value	p value
	Mean	SD	Sk	Min	Max	Mean	SD	Sk	Min	Max		
Interest rate	-0.06	0.82	0.85	-0.77	2.42	0.29	0.77	-0.07	-0.77	1.39	1.80	0.039
Business size	0.15	1.00	0.66	-1.11	2.47	0.34	1.02	0.52	-1.11	2.47	0.78	0.220
											Total	Chi-square value
MFI loan	39 (75%)					13 (25%)					52 (66%)	1.25
Loan type	41 (70%)					18 (30%)					59 (75%)	0.22
Loan term	38 (72%)					15 (28%)					53 (67%)	0.05
First loan	38 (75%)					13 (25%)					51 (65%)	0.92
Loan motive	49 (71%)					20 (29%)					69 (87%)	0.01
Total (N=80)	56 (71%)					24 (29%)						

Legend: interest rate = continuous variable of normalised ordinal rates ranging from below 15 % p.a. to above 30% p.a.; business size = continuous variable of normalised estimates of gross income. MFI loan (1/0) = if MFI; loan type (1/0) = if secured; loan term (1/0) = if short term; first loan (1/0) = if yes; loan motive (1/0) = if business.

Correlation coefficients for variables involved in testing the likelihood of continued usage of microcredit

The following table, Table 23c, presents Pearson's correlations between the eight variables entered into the logistic regression for the research question stated above. According to the Table, with the exception of correlations with MFI sourced loans and business size there are low correlations amongst all other variables. The highest correlation in the entire set is between size of business and first business loan ($r = -0.417$, $p < 0.05$). The negative Pearson correlation implies that businesses belonging to participant MSE owner-managers' in receipt of their first business loan are small. In addition these participants stated business as their key reason for seeking credit ($r = -0.276$, $p < 0.05$). Table 23c reveals a weakly significant (negative) correlation between participant MSE owner-managers' intention to continue borrowing and loan interest rate ($r = -0.196$, $p < 0.10$) which means that participant MSE owner-managers whose current loan interest is high are unlikely to continue borrowing to finance their businesses.

Turning to source of microcredit, MFI sourced credit has a significant positive correlation with type of loan, loan term, and interest rate ($r = 0.321$, $p < 0.05$; $r = 0.925$,

$p < 0.05$; and $r = 0.203$, $p < 0.10$, respectively). This implies that microcredit is mostly collateral-based, attracts high rates of interest and is offered for a term not exceeding two years.

Table 23c: Pearson's correlations for the test on the likelihood to continue using microcredit (N=80)

	MFI source of credit	Type of loan	Loan term	First loan	Loan motive	Interest rate	Business size
Type of loan	.321**						
Loan term	.295**	.031					
First loan	-.043	.045	-.079				
Loan motive	.130	-.131	-.020	.187*			
Interest rate	.203*	-.095	-.183	-.137	.164		
Business size	-.083	.026	.072	-.417**	-.276**	.024	
Continue using microcredit	.126	-.053	.026	.108	.007	-.196*	-.089

* significant at $p < 0.10$; ** significant at $p < 0.05$

Legend: continue using microcredit (1/0) = if yes; MFI source of loan (1/0) = if MFI; type of loan (1/0) = if secured; loan term (1/0) = if short-term; first business loan (1/0) = if yes; loan motive (1/0) = if business; interest rate = normalised score range from -0.77 to 2.42; business size = normalised score range from -1.11 to 2.47.

Test results for MSE owner-managers' likelihood of continued usage of microcredit

Logistic regression is performed to examine the influence, if any, several factors described previously have on the likelihood of participant MSE owner-managers' intention to continue to use loans to finance their business operations. The Hosmer-Lemeshow goodness of fit test shows that the model with all seven predictors is statistically significant ($\chi^2 = 3.34$ (8, N=80), $p > 0.05$). This means that the model is capable of distinguishing between participant MSE owner-managers who intend to continue borrowing and those do not intend to do so. The variance in participant MSE owner-managers' intentions to continue using loans to finance their business operations explained by the model ranges between 10.0 per cent (Cox & Snell R Square) and 14.3 per cent (Nagelkerke R Square). Additionally the model correctly classifies 72.2 per cent of the cases.

Table 23d: Logistic regression results predicting the likelihood of continuing to use microcredit (N=80)

Intend to borrow	B	S.E.	Wald	df	Sig.	Exp(B)
MFILoan	1.354	.693	3.822	1	.026	3.875
LoanType	-.972	.716	1.840	1	.087	.378
LoanTerm	-.490	.630	.606	1	.218	.612
FirstLoan	.317	.631	.253	1	.307	1.373
LnTmvBus	-.228	.853	.071	1	.394	.796
IntrstRate	-.777	.370	4.403	1	.018	.460
SizeBus	-.097	.301	.104	1	.374	.907
Constant	1.210	1.094	1.223	1	.135	3.353

Ch² = 3.34; R² = 10.0% - 14.3%

Legend: MFILoan (1/0) = Loan source MFI; LoanType (1/0) = Loan type secured; LoanTerm (1/0) = Short-term loan; FirstLoan (1/0) = In receipt of first loan; LnMtvBus (1/0) = Loan motive is business; IntrstRate (normalised score range from -0.77 to 2.42); SizeBus (normalised score range from -1.11 to 2.47).

Table 23d shows that three of the predictors make a significant contribution (though one is weak) to the model [MFI sourced loan ($p = 0.026$), type of loan ($p = 0.087$), and interest rate ($p = 0.018$)]. The strongest predictor of reporting likelihood of continuing to borrow is source of loan being linked to an MFI, recording an odds ratio of 3.88. This implies that participant MSE owner-managers whose main source of loan is an MFI are almost four times more likely to continue borrowing than participant MSE owner-managers whose loan source is independent of a MFI, all other factors held constant. This does not necessarily mean that MSE owner managers accord much legitimacy to MFIs as a source of economic capital. The second strongest predictor of likelihood to continue borrowing is the rate of interest charged on loans (odds ratio = 0.460). Given the fact that the odds ratio is less than 1, this means that participant MSE owner-managers who currently pay higher interest rates on loans are 0.46 times less likely to continue borrowing than participant MSE owner-managers who pay lower interest rates. This result is in part indicative of the fact that as a form of economic capital, microcredit appears overvalued. This result is consistent with previous studies on the determinants of microcredit repayment (see Roslan and Karim, 2009). With an odds ratio of 0.378, participant MSE owner managers in receipt of collateral-based loans are less likely to continue borrowing compared to participant MSE owner-managers who are in receipt of collateral free loans.

With an observed model Chi-square value of 3.34 (df, 8; $p = 0.911$), against a Chi-square distribution value of 15.50 (df, 8) at $p = 0.05$, the opinion that participant MSE owner managers likelihood to continue borrowing to finance their business operations is not influenced by their perceptions of the usefulness of microcredit, does not hold. As a result the alternative position that, participant MSE owner managers who are likely to continue using microcredit to finance their business operations are more likely to perceive microcredit to be useful, holds.

In view of the foregoing results, that perceived usefulness of microcredit is likely to lead to higher chances of its increased usage to finance business operations among participant MSE owner-managers, it is equally important to examine whether currently supplied BDS meets the expectations of the participant MSE owner-managers in response to Research Questions 3 and 5 (see section 1.3.2 in chapter one). This is the issue addressed next.

6.4 Usefulness of BDS to MSE Owner-managers

In this section the perceived usefulness of BDS, as cultural capital in the words of Bourdieu, to the participant owner-managers of MSEs is examined. Usefulness of BDS is assessed broadly using several factors namely; the sources of BDS commonly used by MSE owner-managers, types of business advisory services provided by BDS agencies targeting MSEs, terms and conditions of BDS delivery, and the perceived benefits of BDS to participants' businesses, among others. Again the results of analysis presented here relate to Research Questions 3 and in part 5.

6.4.1 MSE owner-managers' sources of BDS

The following Table 24a presents participants' responses to a question about the various sources of BDS they use. According to this Table, the sources of BDS commonly identified by MSE owner-managers include; accountancy and audit firms, consultants, microfinance schemes, academics and family and friends, among others.

Table 24a shows that of the various sources of advisory services, family and friends is commonly identified by most (41.7 per cent) participant MSE owner-managers. The second most common source of business advisory services is microfinance schemes (17.8 per cent), while accountancy and audit firms (14.7 per cent) rank third. Consultants and academics do not seem highly used sources of business advisory

services among MSE owner-managers, attracting 9.3 per cent and 2.5 per cent of the participant responses respectively. This is does not come as a surprise because, as Berry and Sweeting (2006) note, academics are not a popular source of business advice among MSE owner-managers. Overall, it is noted that more than half (54.1 per cent) of the participant MSE owner-managers' responses identify acquaintances (i.e. family, friends and business colleagues) as a source of business advisory services.

Table 24a: MSE owner-managers' sources of BDS

Variable (nominal)	Response category	Responses ^a	
		Frequency (n)	Percentage of cases
Source of BDS	accountants & auditors	41 14.7%	48.8%
	consultants	26 9.3%	31%
	family & friends	117 41.9%	139.2%
	business colleagues	34 12.2%	40.5%
	academics	7 2.5%	8.3%
	microfinance scheme	47 16.8%	56%
	other advisory agents	7 2.5%	8.3%
Total		279 100%	

^a Percentages and totals are based on multiple responses rather than cases.

While it is understandable that acquaintances are an easy option for advice whenever people encounter problems in their daily activities, it is not clear why MSE owner-managers prefer acquaintances as a source of business advice compared to the more professional sources such as consultancy firms. In terms of ease of adoption, advice from acquaintances is not likely to come at a fee. One may argue that given the amount of social capital accrued between MSE owner-managers and their acquaintances, this source is readily accessible for advice compared to the commercial sources of business advisory services. Further, commercial sources of BDS are likely to attract contractual arrangements with a significant amount of normative pressure that MSE owner managers may find incongruent with their social context and habitus. Among other terms and conditions, charges by commercial sources of business advisory services may make this option inaccessible to most MSE owner-managers. It is important to however note that as a source of business advisory services, acquaintances are unlikely to give

appropriate and quality business advice. Besides, given the social connections that exist between MSE owner-managers and their acquaintances, the objectivity of any such business advice is questionable.

Table 24b below presents results of MSE owner-managers' responses to a question in relation to how they initially became aware of the BDS agents that they use. Participant responses identify several factors that play an intermediary role for the initial contact with BDS providers, ranging from recommendations by business colleagues and friends, to initiatives by either self, MFIs and/or BDS agency staff. According to Table 24b, most (30.1 per cent) participant MSE owner-managers identify MFIs as the intermediary through which they became connected to their BDS providers. The second most commonly mentioned intermediary is friends (21.7 per cent), while personal initiative (18.1 per cent) by MSE owner-managers is third. Marketing efforts by BDS agents and recommendations by business colleagues respectively attracted 16.9 per cent and 12 per cent of the responses from the participant MSE owner-managers. Again it is worth noting that intermediaries with a social connection or social capital linkage to MSE owner-managers (i.e. friends and business colleagues) are a popular source of information, jointly contributing to 33.7 per cent of the participant responses.

Table 24b: How MSE owner-managers became aware of their BDS agents

Variable (nominal)	Response category	Responses	
		Frequency (n)	Percentage
How I got to know the BDS agents	microfinance institutions	25	30.1%
	recommended by friends	18	21.7%
	personal initiative	15	18.1%
	through business colleague	10	12.0%
	agent's marketing efforts	14	16.9%
	other ways (e.g. farmer associations)	1	1.2%
Total (N)		83	100%

Although results of administration of the interview protocol with participant MSE owner-managers as to how they became aware of their BDS providers (presented above) seem to imply that MFIs are instrumental in linking MSE owner-managers with potential BDS providers, this is not confirmed during open-ended interviews with

representatives of BDS agencies. Asked whether they collaborate with MFIs in their delivery of services, most BDS representatives' responses appear to show that often it is their firms which refer clients to MFIs for credit and not the other way round (i.e. MFIs do not often refer their clients to BDS agents for business advisory services). The following quotes are examples of BDS representatives' responses to a question regarding collaboration with MFIs;

"...we do work with MFIs when it comes to access to finances by farmers.

It is usually a farmer thing. We work with MFIs to give farmers money."

"We offer information on possible sources of credit to our clients on request."

"When they are applying for loan [from MFIs] they asked to write a proposal, then our clients refer them to us."

Given the fact that MFIs (according to Table 24a) are identified as possible sources of BDS (16.8 per cent), it therefore appears that MSE owner-managers (especially MFI clients) are likely to receive business advisory services from MFIs themselves. However, it remains to be seen whether this advice is valued by recipients.

6.4.2 Business advisory services received by MSE owner-managers

As reflected in Table 24c, there is a wide range of business advisory services targeted at MSEs. According to the Table, a majority (26.3 per cent) of the participant MSE owner-managers identify management facilitation, either in the form of general management advice or training, as one of the key business advisory services received from BDS providers. The second most commonly reported business advisory service is moral support. According to Table 24c, as a business advisory service category, moral support attracted 18.1 per cent of the participant MSE owner-managers' responses. Third, 17.7 per cent of the participant owner-managers report technical support as yet another business advisory service received. Business advisory services that are of a technical nature relate primarily to facilitation, either in the identification of possible sources of materials or operational issues relating to product development. Additionally 15.7 per cent of the participant MSE owner-managers quote support in accessing users' markets as one of the advisory services received.

Results in Table 24c show that some of the advisory services available have a clearer link with the operations of MSE owner-managers' businesses than others. For example, services like management training, facilitation of access to materials and markets, and product development are more directly linked to enterprises' operations compared to other services such as provision of moral support and policy advocacy. Given the diversity in business advisory services reflected above, one is bound to ask whether MSE owner-managers pay directly for the advisory services they receive and if so, whether they choose the specific services they want? These two issues are discussed next.

Table 24c: Advisory services received by MSE owner-managers

Variable (nominal)	Response category	Responses ^a	
		Frequency (n)	Percentage of cases
Support services received	moral support	75 18.1%	89.3%
	access to markets	65 15.7%	77.4%
	general management advice	61 14.7%	72.6%
	management training	48 11.6%	57.1%
	technical support in product development	42 10.1%	50.0%
	sourcing of materials	32 7.7%	38.1%
	policy advocacy	30 7.2%	35.7%
	business infrastructure development	26 6.3%	31.0%
	compliance with government regulations	29 7.0%	34.5%
Total		414 (100)%	

^a Percentages and totals are based on multiple responses rather than cases.

Results of participants' responses to a question on how BDS fees are determined (presented in Table 25 below) show that most participant MSE owner-managers may not be paying directly for business advisory services. According to Table 25, although 33.7 per cent of the participant MSE owner-managers indicate that BDS fees are determined through some form of negotiation with the provider, a slightly higher proportion (34.9 per cent) state that BDS fees are included in the charges for the standard microcredit services.

Table 25: Mechanism for determining BDS fees

Variable (nominal)	Response category	Frequency (n)	Cumulative percentage (%)
How is the fee for BDS determined?	negotiate with BDS provider	28 33.7%	33.7
	going market rate	18 21.7%	55.4
	part of loan package	29 34.9%	90.3
	fee paid by third party	3 3.6%	93.6
	other mechanisms	5 6%	100.0
Total (N)		83 (100%)	

Further, Table 25 reflects that 21.7 per cent of the participant MSE owner-managers pay for BDS at a rate equivalent to the existing market rate for similar services, whilst a minority (3.6 per cent) state that BDS charges are paid for by third party organisations. In most cases it is understood that this implies either donor agencies or NGOs which may have an interest in supporting MSE development. Some of the other mechanisms (6 per cent) for determining BDS fees reported by participant MSE owner-managers include; farmers' associations, investment groups, and government departments. This could be interpreted to mean that some of the MSE owner-managers, as members of farmers' societies and/or investment clubs, are likely to benefit from BDS paid for by these societies as a way of promoting members' welfare. These results clearly show that in most cases MSE owner-managers do not pay for BDS directly. This scenario is further confirmed by results of open-ended interviews with representatives of BDS providers (see sample quotes in Text boxes 9a and 9b below).

Text box 9a: BDS fees determination – BDS representatives' views

“The MSE will pay about 50 per cent of the cost, but they wouldn't pay us, they would pay towards the cost of the exercise. Because we are not for profit we don't receive the money, because if we did then we have file returns,so they pay the consultant or they cover certain costs. So it gets into their books not our books. So it is very discretionary ..typically you find a client who doesn't have much money, he will probably have *[to pay]* 20 per cent -30 per cent... the range will be 20 per cent-50 per cent *[of the cost]*, it depends.”

“Before we sign up for a job we get to meet the client and they explain to us what they want. That gives us an impression of the content of the work - the scope of it. We *[then]* find out the man hours and technical skills required and then on the basis of that we put our rates *[which]* currently are KES 6000 per person per day for officers, and KES 6,500 for partners.”

“There are variables; one it depends on the size of the client. Two it will also depend on...like for tax consultancy, it depends on the hours spent. So mostly it is size and hours *[that determine the cost]*.”

Text box 9b: BDS fees determination – MFI representatives' views

“The training fee is in-built within the loan charges.”

“Most of the training budget is funded by our donors.”

“..our donor pays for the cost of tuition and the other operating expenses.”

“ ...our centre uses a time sheet system of billing but most of budget is funded by surplus from the mother organisation.”

Table 26 below presents the results of the protocol guided interviews with participant MSE owner-managers on a question seeking to identify the business decision areas for which they frequently need advice consistent with Research Question 2 in chapter one. According to the Table, more than half (54.7 per cent) of the participant MSE owner-managers identify the business decision area of accountancy as their top priority area requiring advice from eleven others. More than three quarters (76.4 per cent) of the participant MSE owner-managers identify accounting to be among the top three business decision areas that they frequently require advice on. The second business decision area that MSE owner-managers frequently require advice on is marketing. Marketing is named among the top three of eleven decision areas by 74.3 per cent of the participant MSE owner-managers. More than half (56.4 per cent) of the participants report marketing as amongst the top two decision areas on which they often seek advice.

Table 26 further shows that 49.3 per cent and 50.1 per cent of the participant MSE owner-managers report general business planning and financial planning respectively as among the top three (of eleven) decision areas for which they often need assistance from BDS providers. In this regard, financial management is identified as being the first of eleven other decision areas by 17.1 per cent of the participant MSE owner-managers, while, as a top priority, general business planning attracted only 4.1 per cent of the participants' responses.

Table 26: Decision areas where MSE owner-managers frequently need advice

Variable (nominal)	Response categories	Responses ^a			Total (N)
		Rank out of 11			
		1 st	2 nd	3 rd	
Decision areas where advice is frequently needed	Accounts	44 54.3%	12 14.8%	6 7.4%	(81)
	Financial management	14 17.1%	8 9.8%	19 23.2%	(82)
	Planning	3 4.1%	17 23.3%	16 21.9%	(73)
	Human resources management	2 3.2%	9 14.3%	14 22.2%	(63)
	Marketing	15 19.2%	29 37.2%	14 17.9%	(78)
	Production	2 10.5%	1 5.3%	1 5.3%	(19)
	Technology access & use	2 9.1%	1 4.5%	1 4.5%	(22)
	Government regulations	2 6.9%	3 10.3%	9 31.0%	(29)
	Tax management	1 2.6%	4 10.5%	5 13.2%	(38)
	Legal issues	1 3.0%	6 18.2%	8 24.2%	(33)

^a Percentages and totals are based on multiple responses rather than cases.

Other business decision areas where MSE owner-managers frequently require advice include; human resources management, tax management, compliance with government regulations and production and technology, among others. According to Table 26, 48.2 per cent of the participant MSE owner-managers report requiring advice on compliance with government regulations as first among the top three priority areas, while 39.7 per cent of the participants report management of human resources on this basis. As a business decision area, tax management is not commonly reported as an advisory priority area by participant MSE owner-managers. Of the 38 participants who identified Tax management as an issue where they often need advice, 13.1 per cent identified it as first among the top two decision areas and 25.3 per cent as among the top three decision areas.

The results presented above, though mostly consistent with literature (see Faoite et al., 2004) presented in section 3.3.1 of chapter three, could attract varied interpretations. Firstly one of the reasons for MSE owner-managers reporting accounting as an area on which they often require advice could arise from coercive pressure by their microcredit providers. It is likely that MFIs, both as lenders and providers of BDS may require MSE owner-managers (as borrowers) to put a lot of attention on keeping accurate books of accounts. Such a practice is likely to have some positive effects in that not only would the MSE owner-managers keep track of the performance of their businesses, but also the MFIs would have evidence on how credit is eventually used. Additionally records of account can be very useful when evaluating the financial position (level of economic capital) of the enterprise in respect of loan applications in the future.

Secondly, the demand for marketing skills; whilst marketing prowess is recognised as one of the key attributes constituting the habitus of a successful entrepreneur, this could be due to increased competition in trade in goods. As reported earlier (see section 6.2), most participant MSE owner-managers' business activity is trade. As a result, good marketing skills could be a differentiating factor between MSEs that do well and those which do not perform so well. Thirdly as regards the decision area of human resources management, it is noted that this area is not among the highly demanded skills among MSE owner-managers. This is could be for the simple reason that most MSEs do not have many employees to manage. As earlier reported, the average number of employees among participating MSEs in this study is 3.5 (see Table 23).

As pertains to the low priority reported on demand for advice on tax management and other compliance related issues, it is likely that the turnover for most participant businesses is below the government's threshold for withholding tax registration purposes. Given this scenario, it is unlikely that participant MSE owner-managers would often require advice on tax matters. Additionally, given the informal nature of the participants' enterprises, staff insurance and other work-place regulations may not be applicable to participants' enterprises, and are likely to be neglected in cases where applicable.

Returning to the question on whether MSE owner-managers choose the specific areas of BDS for which they require facilitation, a comparison of data presented in both Tables 26 and 24c, shows minimal convergence. For example, whereas accounting and marketing are reported to be decision areas where MSE owner-managers often require advice, moral support, information on access to markets and general management advice are the business advisory services that participant MSE owner-managers report to be receiving.

Given the apparent discrepancy between what MSE owner-managers require and what they actually receive, it is unlikely that they choose the business advisory services that they receive. Further insights on this issue are likely to be elicited from results of open-ended interviews with representatives of both MFIs and BDS providers. Results of interviews with MFI representatives reported in Text box 10a show that MFIs provide a range of training services to MSE owner-managers including: management of group dynamics, leadership, bookkeeping and cash flow management, to general skills on how to run a business. In comparison, BDS agencies offer a relatively more business-focused range of advisory services (see Text box 10b).

Text box 10a: Training services identified by MFI representatives as provided by MFIs

- group dynamics,
- group management
- group leadership,
- group constitution making
- business management
- basic accounts, i.e. bookkeeping, and budgeting, maintaining cash flow
- technical areas; for example crop farming
- how to manage credit and knowing what is expected
- investment opportunities
- how to run a business

Results of open-ended interviews with representatives of BDS providers, reflected in Text box 10b, show that, unlike training offered by MFIs, the range of advisory services offered by BDS agencies more closely matches the type of advisory services frequently required by MSE owner-managers reported previously (see Table 26). BDS agencies' services appear to cover most key business management decision areas, for example, accountancy, marketing, planning, operations, and general management. In contrast

most of the training services provided by MFIs seem to have a bias towards management of social capital or group behaviour. This bias is understandable given the fact that delivery of microcredit (a core service for most of the MFIs) and effective repayment of it, relies considerably on social capital mobilised through MSE owner-managers' groups.

Text box 10b: Business advisory services identified by BDS representatives as commonly provided by BDS agencies

- value addition in terms of distribution networks to farmers
- sales promotion, product & process design services
- bookkeeping and accountancy
- business counseling
- entrepreneurship seminars on how to start a business and how to manage finances
- management training
- group dynamics, skills development, idea generation,
- marketing and pricing
- market information liaison
- tax advice
- general counselling
- business planning
- business expansion & growth
- rehabilitation
- hands on mentorships on skills development
- institution strengthening and capacity building
- auditing, financial statements, and tax management
- setting up management operating systems
- business management consultancy, developing strategic plans

NB List not necessarily exhaustive

In summary given the above situation where training provided by MFIs does not seem to closely match the business advisory services required by MSE owner-managers, and the fact that most MSE owner-managers do not pay for MFI provided BDS directly, it seems unlikely that MSE owner-managers have the freedom to choose the type of BDS they would want from their MFI. In view of the current scenario where MFIs' delivery of microcredit appears driven mainly by commercial rather than social development logic, this result is not unexpected. After all "he, who pays the piper, determines the tune."

6.4.3 BDS delivery; mode, terms and conditions

This section examines the general terms and conditions surrounding BDS delivery as reported by participants in this study. The following Table 27a presents results of protocol guided interviews with participant MSE owner-managers on questions relating to BDS delivery mode, frequency of meetings with BDS agents, nature of engagement, tenure, and BDS charges.

Table 27a: BDS delivery mode, terms and conditions

Variable (nominal)	Response categories						Responses ^a	
							Frequency (N)	Per cent of cases
How I access business advisory services	Access advisory agents through visits to business site						70 46.1%	84.3%
	Accessing advisory agents through visits to agency's office						25 16.4%	30.1%
	Accessing advisory agents through group sessions						40 26.3%	48.2%
	Accessing advisory agents through contracted one off assignment						5 3.3%	6.0%
	Other method of accessing advisory agents						12 7.9%	14.5%
Total							152 (100%)	183.1%
Frequency of meeting with DBS agents	Monthly						20 23.8%	
	Quarterly						16 19.0%	
	Semiannually						21 25.0%	
	Annually						11 13.1%	
	Only when in need						16 19.0%	
Written contract with BDS agency	Yes						44 53%	
Duration used BDS agents (years)		(N) (82)	Min. 1	Max. 19	Range 18	Mean 3.03	Std. Deviation 3.13	Skewness 3.43
BDS rates (KES)	Hourly	(5)	1,000	10,000	9,000	3,100	3863.29	2.23
	Session	(28)	100	12,500	12,400	3,225	2762.26	2.31
	Monthly	(10)	250	11,000	10,750	2,625	3177.29	2.44
	Assignment	(16)	1,800	18,000	16,200	5,812.	5048.55	1.54

^a Percentages and totals are based on multiple responses rather than cases.

As reflected in Table 27a, there are several ways through which MSE owner-managers access BDS including; business site visits, visits to agents' offices, group sessions and contracted one off assignments, among others. The Table shows that 46.1 per cent of the participant MSE owner-managers report that agent's visits to their business

premises is the most common method through which they access BDS. The second most common method of BDS delivery reported among MSE owner-managers is via group meetings. As a mode of BDS delivery, group sessions are reported by more than one fifth (26.3 per cent) of the participant MSE owner-managers. Of all the participant responses, 16.4 per cent identify visits to agent's offices as one of the methods through which they access BDS. Some of the other methods of accessing BDS, reported by (7.9 per cent) of participant MSE owner-managers include; agricultural exhibitions, farmers workshops, and telephone conversations.

Results of open-ended interviews with representatives of BDS providers reveal an even wider variety of methodologies used in delivering BDS to MSE owner-managers compared to the above list. Group sessions continue to be named among the most common methods for BDS delivery. It is important to note that group sessions provide an opportunity to mobilise social capital a critical 'asset' in microfinancing. Other methods of BDS delivery include; apprenticeships, mentorships, business incubation and one-on-one hands-on coaching, among others. The following quotations are illustrative of these responses to the open-ended interviews with BDS representatives.

"...mainly group sessions, but sometimes we also do one-on-one sessions. I need to mention that we have a strong preference for apprenticeships and various aspects of mentorships because they help people learn as they go."

"We do coaching...we coach the staff of the client and at the end of the contract the client's staff should have understood and should from then move on their own."

"We do one-on-one sessions, group sessions, and mentorships. We also expect to start incubation service."

From a marketing perspective and from the BDS agents' stand point, one could argue that agents' visits to MSE owner-managers' (clients') business premises are probably a more effective way of delivering BDS compared to the other options stated above. Through such a strategy the BDS agent is able to not only maintain close contact with the client, but also keep abreast with developments in the enterprise.

With regard to the frequency of meeting BDS agents, Table 27a shows that 25 per cent of the participant MSE owner-managers report to be meeting their agents once every six months, while a close to similar proportion (23.8 per cent) report meeting their BDS

agents at least once per month. Although 13.1 per cent of the participants MSE owner-managers report to be meeting with their BDS agents only once per year, 19.5 per cent of them report meeting their BDS agents either quarterly or only when in absolute need. The Table reveals also that 53 per cent of the participant MSE owner-managers report having a contractual arrangement for supply of BDS with their BDS agency. The remaining 47 per cent of the participant MSE owner-managers undertake their engagements with BDS agents informally.

Interviews with both MFI and BDS representatives reveal that whereas the above reported frequencies of meeting schedules are valid, there are instances where agents meet with MSE owner-managers on a weekly basis for a specified period of time. This is especially the case for newly recruited groups that have to undergo basic MFI training for potential borrowers. It is understood that frequency of meetings between BDS agents and MSE owner-managers (clients) is probably determined by the nature of the specific business advisory assignment under consideration, among other factors. For example, while a bookkeeping workshop for hoteliers may require meeting on a daily basis for a period of one to two weeks, this is not likely to be the case for value added tax returns (VAT) which may require that the BDS agent meets the client at least once every month. Additionally whilst coaching on marketing fresh produce may demand an intermitted (non programmable) schedule of meetings between the BDS agent and the client, meetings for income tax audit services are likely to take place either twice or once in a year.

Table 27a further shows that there is a wide range (18 years) of duration for which participant MSE owner-managers have made use of their BDS providers. The average duration is 3 years ($\sigma = 3.13$). With a skewness of 3.43, this means that most participants had used their BDS agents for a period of between one and two years. Given the average age for most participants' businesses is 4.6 years (see Table 23) it can be inferred that most participant MSE owner-managers started using BDS either in their second or third year of their business operations.

Charges for business advisory services are levied on either hourly, sessional, monthly or on an individual assignment basis. According to Table 27a, at least for participant MSE owner-managers who identify as using non MFI supplied BDS, the average BDS hourly rate is KES 3,100 (AUD \$ 62) with a standard deviation of 3863.29 and a skewness of

2.23. Results in this Table further show that session rates for BDS average KES 3,225 (AUD 64.5) compared to KES 2,625 (AUD 52.5) per month. On average, a BDS assignment is likely to cost MSE owner-managers KES 5,813 (AUD 116). Given the fact that the skewness scores for all the BDS rates above are positive, it can be inferred that the rates are more likely to be closer to the minimum rather than the maximum rate in each category.

The BDS rates reported here may appear modest as well as contradictory, in that the hourly BDS rate is much higher than the monthly rate. One way of interpreting this is that the rates apply to different types of business advisory services used by participant MSE owner-managers. As such, one would not expect rates for accountancy work (e.g. preparation of financial statements) to be similar to the rates for technical product design and packaging, whether the two are billed hourly or monthly. Additionally results of interviews with BDS representatives clarify that in some cases BDS charges are subsidised by donors. This may mean that some of rates reported here are understated. Given the moderate nature of figures on BDS rates reported above and the relative flexibility in the mode of accessing BDS agents, it might be interesting to examine the participant MSE owner-managers' perceptions of their BDS agencies. The following Table 27b presents results of participant MSE owner-managers' perceptions of BDS fees, relationships and the competence of staff.

Table 27b: MSE owner-managers' perception of BDS fees, relationships and staff competence

Variable (nominal)	Response category					Total (N)	t-test value
How affordable is the BDS fee?	Extremely unaffordable	Unaffordable	Neither affordable nor unaffordable	Affordable	Extremely affordable		
	1 1.2%	25 30.5%	30 36.6%	16 19.5%	8 9.8%	(82) 100%	22.47***
Competence rating of BDS staff	Incompetent	Somewhat competent	Fairly competent	Competent	Don't know		
		10 11.9%	26 31.0%	48 57.1%		(84) 100%	-16.88***
How is the relationship with BDS agents like?	Poor	Fair	Neither good nor bad	Good	Excellent		
		1 1.2%	8 9.6%	43 51.8%	31 37.3%	(83) 100%	-12.22***

According to Table 27b, although most (36.6 per cent) participant MSE owner-managers are non committal on the affordability of BDS fees, nearly one-third (31.7 per cent) of them perceive the current BDS fee to be unaffordable. Additionally a close to similar proportion (29.3 per cent) of the 82 participant MSE owner-managers perceives the BDS fee as affordable. There is a highly significant difference between participant MSE owner-managers who perceive BDS fees as affordable and those who perceive it to be unaffordable (t-test =22.47, $p<0.001$). The Table further shows that more than half (57.1 per cent) of the participant MSE owner-managers perceive the staff of their BDS agencies as sufficiently competent to handle their work. However 42.9 per cent of the participant MSE owner-managers perceive staff from their BDS agencies as being less competent. Of these, close to one-third (31 per cent) of the participant MSE owner-managers perceive the BDS staff as ‘fairly’ competent while 11.9 per cent perceive the staff as somewhat competent. With a t-test value of -16.88 at $p<0.001$, there is a significant difference between participant MSE owner managers who perceive BDS agents’ staff as being competent and those who think otherwise.

In general, for the majority (89.1 per cent) of the participant MSE owner-managers, the relationship with their BDS agents is reported as ‘good’.

The results above appear to suggest that at least in some cases BDS agency personnel are not sufficiently competent to meet the demands of their clients. To get more insight on this inference, exploration of the entry level qualification for BDS consulting staff will assist. Results of open-ended interviews with BDS representatives in the MSE sector (see Text box 11a) show that the minimum qualification for BDS staff is a tertiary level diploma in a business related field.

Text box 11a: BDS representatives’ views on entry level qualifications for BDS staff

“A tertiary level diploma is sufficient but needs to be related to management training.”

“I would imagine that this fellow should have a diploma certificate as a minimum. It does not matter in what field. At least a diploma, because at that level you have the basic skills to interpret information. They should be able to conceptualise and interpret information that they collect from clients. ...what is important is that any BDS officer must have basic knowledge in the area of the service or product that he purports to be involved in.”

“...at the moment nearly half of the staff has university education, the others have tertiary level of education in the related areas, for example CPA, ACCA, or a diploma in accountancy and of course very high proficiency in IT.”

From the quotes in Text box 11a it appears as though most of the consulting BDS staff have a relevant education. However this may not imply that they are capable of delivering business advisory services to MSE owner-managers. Whereas staff may have the relevant education, to be effective in the delivery of BDS they may require some practical exposure or experience in running a business. As a prerequisite in handling BDS assignments, whereas practical experience is cited by a few of the BDS representatives interviewed as desirable, some do not think experience is necessary (see sample views from BDS representatives in Text box 11b).

Text box 11b: BDS representatives' views on importance of experience for BDS staff

"...oh big time, we usually hire people with private sector experience. They need to have a lot of skills and very solid experience from private sector *[businesses]*."

"...it is, experience is important. I can't begin saying that you *[know]* am doing BDS for arts and craft, and yet I have no understanding of where 'Akamba' hard wood starts and ends!"

"...absolutely, people without experience even with good education, don't succeed. I can tell you, because experience is very important...they get on the job and do it. That is what our clients are looking for, they are not looking for big theory and what...they are looking for...here is my problem, how do you help me address it?"

"You see most of the advisors they don't own businesses of the nature that they are advising on. It's purely research work and the academic knowledge one has that you are able to link the two and advise. I don't think experience is important. What I think is *[important]* is *[that]* one can access information through research.... it is more important than just having been in the field."

"I don't think experience matters much.let me say this, sometimes you may footballer who understands everything but he cannot train a team after he has retired as a player, because he is limited in a number of ways; conceptualising the process and communicating the instructions to the players. That *[is]* the thing that might constraint the process. But you may have a theorist who has a high IQ and can make things move and because he is working with an entrepreneur who has an idea of where he is going, all that was lacking is knowledge."

From the foregoing it is clear that relevant tertiary level education is important if one is to provide BDS consulting in the MSE sector. However, it seems unclear whether practical knowledge gained through involvement in a private enterprise is a necessary condition. Notwithstanding this, having discussed the terms and conditions surrounding delivery of BDS to MSE owner-managers, it is important to examine the recipients' perceptions as to the impact access to BDS is having on their enterprises.

6.4.4 MSE owner-managers' assessment of benefits, shortcomings and satisfaction with BDS

Guided mainly by reports of protocol aided interviews with MSE owner-managers, this section discusses the benefits and drawbacks accruing from the use of BDS. The section also examines the participant owner-managers' satisfaction ratings of their experience of BDS. The analyses presented here relate mainly to Research Questions 3 and, in part 5, as outlined in chapter one (see section 1.3.2). In this regard discussions focus on the MSE owner-managers' ratings of satisfaction with business advisory services targeting specific business decision areas. The MSE owner-managers' overall judgements on satisfaction with BDS delivery are presented also.

The following table, Table 28, presents results of protocol guided interviews with participant MSE owner-managers on questions aimed at eliciting their perceptions of the benefits and shortcomings of BDS. According to Table 28, some of the benefits that might accrue from using BDS include access to professional input in decision making, development of managerial skills and technical and moral support. The Table shows that most (72.3 per cent) participant MSE owner-managers report skill development to be among the top three (of six) benefits accruing from using BDS. Of these, 24.1 per cent identify skill development as being first out of six priority benefits while 54.2 per cent of rank it amongst the top two.

The second most commonly reported benefit is access to professional input in decision making. Of 83 participant MSE owner-managers, 68.7 per cent rank professional input among the top three (of six) benefits of BDS. Of these, 24.1 per cent identify the benefit of access to professional input as their number one (of six) priority benefit compared to 18.1 per cent who rank it second. Table 28 further reveals that moral support and access to an independent opinion in decision making are respectively ranked as third and fourth benefits of BDS by participant MSE owner-managers. As a benefit of BDS, moral support is identified among the top three (of six) by 62.6 per cent of the participant MSE owner-managers compared to 50.6 per cent for access to an independent opinion. It is noted that close to one-third (30 per cent) of all participant MSE owner-manages identify moral support as the top (first of six) benefit of BDS. This appears consistent with earlier results (see Table 24c) on the nature of BDS accessible to MSE owner-managers. In summary, from a users' perspective, given the

fact that most (72.3 per cent) of the participant MSE owner-managers cite skill development as their priority benefit of BDS, it is likely that MSE owner-managers would be more interested in BDS that enhances their cultural capital, which in turn enhances opportunity for growth in economic capital, through development of business management skills.

Table 28: MSE owner-managers' perceptions on the benefits and shortcomings of BDS

Variable (nominal)	Response categories	Responses ^a			Total (N)
		Rank out of 6			
		1 st	2 nd	3 rd	
Benefits of BDS	Access to professional input	20 24.1%	15 18.1%	22 26.5%	(83)
	Access to independent opinion	10 12.0%	13 15.7%	19 22.9%	(83)
	Access to skills development	20 24.1%	25 30.1%	15 18.1%	(83)
	Access to technical support	7 8.8%	13 16.3%	16 20.0%	(80)
	Moral support	24 30.0%	15 18.8%	11 13.8%	(80)
	Other benefits	7 8.3%			(84)
Drawbacks of BDS		Rank out of 4			
		1 st	2 nd	3 rd	
	Breach of privacy	23 28.0%	16 19.5%	12 14.6%	(82)
	Leakage of information	24 29.3%	25 30.5%	18 22.0%	(82)
	Misleading advice	13 16.0%	21 25.9%	30 37.5%	(81)
	Dependency syndrome	15 19.0%	13 16.5%	17 21.5%	(79)
	Other fears	5 6%			(84)

^a Percentages and totals are based on multiple responses rather than cases.

A comparison of the above with results of open-ended interviews with BDS representatives reveals a more diverse set of benefits that MSE owner-managers are said to have accessed. Although there is some common ground on the benefits of BDS, for example skill development (see Text box 12a), some of the benefits cited by BDS representatives seem to be general in nature (see Text box 12b for a selected list). For example, access to information linkages, management of change induced by access to credit and opened up for more opportunities, among others.

Besides benefits, Table 28 above shows that participant MSE owner-managers also cited some of the shortcomings of using BDS, namely; breach of privacy, leakage of business information, misleading advice and creation of a dependency syndrome, among others. Among the shortcomings of BDS, leakage of information is the most serious with 59.8 per cent of the participant MSE owner-managers identifying it as among the top two drawbacks out of four. The second commonly reported shortcoming of BDS is breach of privacy.

As a shortcoming of BDS, breach of privacy is ranked first (of four) by 28 per cent of the participant MSE owner-managers compared to 16 per cent for misleading advice. The fear of dependency syndrome is least commonly cited among other BDS shortcomings. Of the 79 participant MSE owner-managers, barely more than one-third (35.5 per cent) ranked dependency syndrome among their top two (out of four) concerns with BDS.

Turning to satisfaction, the following table, Table 29, presents results of MSE owner-managers’

BDS satisfaction ratings along selected decision areas as well as overall satisfaction ratings on the quality of BDS received. The Table shows that in most cases, participant MSE owner-managers report being satisfied with advisory services received across the key business decision areas. For example, the majority (81.5 per cent) of participant MSE owner-managers report satisfaction with BDS in accounting while 73.3 per cent identify as being satisfied with the BDS in marketing.

Text box 12a: BDS representatives’ views on skill development among MSE owner-managers

“Yes, some skill has been nurtured but more so compliance, ... compliance with tax requirements, financial management standards and practices and basically acquaintance with the statutory requirements of the business environment. So their sense of understanding and acquaintance with business requirements, those who deal with us have an edge over those that don’t. *[In this regard]* some skills have been nurtured among those MSEs.”

“...you *[see]* this firm has actually grown with its clientele. Some are now able to do accounting work on their own, we are now mainly involved in audit.”

“One good thing that this organisation has done is that it has contributed to a lot of human development in this country.”

“...they appreciate the skills they have gained. *[Through]* access to quality training they have developed management capability. Some personal development e.g. their social skills, have also improved.”

Unlike human resources management where participants' responses on BDS satisfaction appear shared evenly (i.e. 36.4 per cent satisfied and 39.3 per cent dissatisfied), in the case of BDS in the context of financial management, two-thirds (65.8 per cent) of participant MSE owner-managers identify as satisfied compared to one-fifth (20.7 per cent) who are dissatisfied. Similarly 49.3 per cent of the participant MSE owner-managers report to be satisfied with advisory services in general business planning while 21.7 per cent are dissatisfied with the service.

Across the four key decision areas reported above, the difference between participant MSE owner-managers who are satisfied and those who are not is highly significant at $p < 0.001$. Among all the other decision areas, namely; production process design, technology use, regulations compliance, tax and legal issues, the proportion of participant MSE owner-managers who are satisfied with the respective BDS is greater than those who are dissatisfied.

Text box 12b: BDS representatives views on benefits of BDS to MSE owner-managers

- Acquired skill to run business
- Access to credit services
- Linkages to markets
- Information linkages
- Access to counseling during hard times
- Helped them manage change that comes with improved access to credit.
- Improved business operations
- Access to credit from MFIs after training
- Opened them up for more opportunities
- Got new business ideas
- Created a platform to share experiences
- Expand business
- Built confidence
- Accessed new markets
- They have successful businesses
- Have a network that they call upon

Overall responses on the quality of BDS (see Table 29) indicate that most (86.8 per cent) participant MSE owner-managers evaluate it as 'good', with 45.8 per cent of them rating it as 'very good'. A small number (8), being 9.5 per cent of the 83 participant MSE owner-managers were non committal, while 3.6 per cent rate the quality of BDS delivered as 'poor'. In summary and from a univariate perspective, participant MSE owner-managers' opinions on the benefits of BDS, satisfaction ratings across the major business decision domains and their ratings on the quality of BDS appear consistent. In the following chapter however, the issue of assessing the effectiveness of BDS delivery in general and MSE owner-managers'

satisfaction rating of it, in particular, is examined from a multivariate point of view.

Table 29: MSE Owner-managers' satisfaction rating of advice on business decision areas

Business decision area	Response ^a categories					Total (N)	t-test value
	highly satisfied	satisfied	neither satisfied nor dissatisfied	dissatisfied	highly dissatisfied		
accounts	49 60.5%	17 21.0%	10 12.3%	3 3.7%	2 2.5%	(81)	- 11.08***
financial management	27 32.9%	27 32.9%	11 13.4%	12 14.6%	5 6.1%	(82)	-14.70***
planning	12 17.4%	22 31.9%	20 29.0%	13 18.8%	2 2.9%	(69)	-13.85***
human resources	14 23.0%	10 16.4%	12 19.7%	16 26.2%	8 13.1%	(61)	-15.31***
marketing	25 33.3%	30 40.0%	13 17.3%	5 6.7%	2 2.7%	(75)	-11.35***
production processes	3 15.8%	6 31.6%	1 5.3%	6 31.6%	3 15.8%	(19)	
technology	7 31.8%	7 31.8%	6 27.3%	2 2.4%		(22)	
regulations compliance	12 40.0%	8 26.7%	3 10.0%	4 13.3%	3 10.0%	(30)	
tax management	2 5.4%	11 29.7%	8 21.6%	10 27.0%	6 16.2%	(37)	
legal issues	4 12.9%	8 25.8%	7 22.6%	7 22.6%	5 16.1%	(31)	
Satisfaction with Quality of BDS	Very good	Good	Neither good nor bad	Poor	Very poor	Total (N)	t-test value
	38 45.8%	34 41%	8 9.5%	2 2.4%	1 1.2%	(83)	8.93***

* significant at $p < 0.10$; ** significant at $p < 0.05$; *** significant at $p < 0.001$

^a Percentages and totals are based on multiple responses rather than cases.

6.5 Conclusion

This chapter presents analysis of participants' perceptions of the usefulness of microcredit and BDS as support services to owner-managers of micro and small enterprises. The chapter begins by providing an outline of the general characteristics of the participant MSE owner-managers' businesses as consumers of microcredit and BDS. Discussions on the usefulness of microcredit to the participant MSE owner-managers are guided by several factors including; sources of credit commonly accessed by MSE owner-managers, motive for taking a loan, and the participant MSE owner-managers' perceptions on the impact that microcredit has on their businesses. Similarly as pertains to the usefulness of BDS, discussions focus mainly on BDS sources that MSE owner-managers commonly use, the types of business advisory services offered by BDS agencies and what MSE owner managers frequently need, and the perceived impact of access to BDS on participant MSE owner-managers' businesses.

In most cases the views of the participant MSE owner-managers on the issues above are compared with views of representatives of both the MFIs and BDS agencies as well as those of independent entrepreneurship researchers in the MSE sector. In addition concepts drawn from both Bourdieu and neo-institutional theories are used to assist interpretation of results. Whereas there are concerns about some terms and conditions surrounding delivery of both microcredit and BDS, in general the proceedings show that participant MSE owner-managers feel that access to microcredit and BDS is having a positive impact on their enterprises. A multivariate analytical perspective to the subject matter of the thesis follows.

7.0 Chapter Seven: Data Analysis - Multivariate

7.1 Introduction

The main objective of this study is to evaluate the association of microcredit and business development services (BDS) with the perceived performance of micro and small enterprises (MSEs). While the previous chapter addressed this issue using a univariate approach, this chapter examines it from a multivariate and multi-dimensional point of view.

This chapter is devoted to discussion of the operationalisation of the variables used in testing the various hypotheses (developed in chapter three) and to the tests themselves and interpretation of their results. The chapter is organised into two main sections. The first section presents results of tests of hypotheses relating to MSE performance, which is the key construct in this study. In this regard four sets of hypotheses (all related to Research Question 4, stated in chapter one) are examined. These tests are aimed at demonstrating which approach to microfinancing, i.e. social (focusing on human capital development) or commercial (emphasising economic capital) is likely to lead to better livelihoods for poor MSE owner managers through improved performance of their enterprises. All tests are conducted in accordance with the four categories of participant MSE owner-managers introduced in section 4.3 (study design), namely:

- c1 = MSE owner-managers in receipt of both microcredit and BDS;
- c2 = MSE owner-managers in receipt of microcredit without BDS;
- c3 = MSE owner-managers in receipt of BDS without microcredit; and
- c4 = MSE owner-managers in receipt of neither microcredit nor BDS.

The second part of the chapter discusses the results of tests of hypotheses dealing with the perceived effectiveness of BDS delivery and the strategic fit between currently supplied BDS and the self-expressed needs of MSE owner-managers participating in this study in line with Research Question 5.

7.2 Test of Hypotheses dealing with MSE performance

This section presents discussions of test results related to owner-managers' perceptions of their MSE performance posed in Hypotheses 1 – 4. The section begins with

elaborations on measurement pertaining to both the dependent and independent variables used in testing the respective hypotheses.

7.2.1 Measurement of MSE performance and coding of variables

Before discussing the individual results of tests relating to the MSE performance hypotheses it is important to understand how MSE performance (dependent variable) is measured. As a construct MSE performance is measured through participant MSE owner-managers' perceptions of the financial performance of their enterprises. There are six financial indicators about which their perceptions are elicited including; growth in sales, profit, expenses, savings, cash flow, and stock/service orders. Multiple measures, all of which are financial in nature, are used in order to improve on reliability and validity of the performance construct (Murphy et al., 1996, O'Regan et al., 2010). MSE owner-manager perceptions rather than absolute figures were preferred for two reasons. First participant MSE owner-managers were unlikely to provide financial performance figures because they hardly keep such records. Second, even where such records do exist their accuracy is most probably questionable. Further, extant literature supports the use of perception-based scales to assess MSE performance (see King-Kauanui et al., 2006).

Guided by a five-point Likert type scale ranging from 1= noticeable decline to 5 = noticeable increase, participants recorded a self-rated score on each of the six items above. Before the analysis, scores on expenses were reversed (i.e. 1= noticeable increase to 5 = noticeable decline) to ensure consistency in direction with the other performance indicators. During the structured interviews, participant MSE owner-managers were asked to score their perceptions for each of the six performance items for their businesses in reference to the previous two years of operations.

The responses are subjected to scale reliability analysis using inter-item correlations, the results of which appear in the following tables, Tables 30a and 30b. According to Table 30a, with the exception of expenses, the other five items measuring MSE performance have medium to high Pearson's correlations. Consequently, the item 'Business expenses' was dropped from the MSE performance scale. The corresponding Cronbach alpha for the remaining five items measuring MSE performance is 0.809 (see Table 30b). Given that the alpha score is greater than 0.70 (Cohen, 1988), it can be concluded

that the items display high internal consistency and are a reliable measure of the MSE performance construct.

Table 30a: MSE performance measures - Inter-Item Correlation Matrix

	Growth in sales	Business profits	Business expenses	Business savings	Cash flow
Business profits	.639				
Business expenses	-.169	-.417			
Business savings	.505	.716	-.459		
Cash flow	.389	.311	-.108	.370	
Stock/service orders	.358	.452	-.205	.411	.449

Table 30b: MSE performance measures- Cronbach's Alpha reliability test

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	N of Items
.809	.810	5

Next the individual scores for the five MSE performance variables outlined above were normalised⁴¹ (Gow, 2010) and labelled as follows; Growth in sales (TRA1_1), Profit (TRA2_1), Business savings (TRA3_1), Cash flow (TRA4_1), and Stock/service orders (TRA5_1). The sum of scores on each of the transformed variables is taken to yield a total performance score which becomes the dependent variable labelled PerfScore [i.e. $\text{PerfScore} = \text{SUM}(\text{TRA1_1}, \text{TRA2_1}, \text{TRA3_1}, \text{TRA4_1}, \text{TRA5_1})$]. Before the normalisation of scores on each of the five performance components, assessment of missing values in the entire sample of 160 cases was done. The exercise identified 13 (8.1 per cent) cases with missing data on either one or two variables among the measures of MSE performance. Using SPSS's multiple imputation procedure, missing values were imputed by way of linear regression. Exploratory regression analysis using both data sets (with and without imputed data) yielded highly consistent results. Therefore all the regression analyses reported in this chapter involve the entire sample of 160 cases.

Coding of variables

Dependent variable: As explained above the dependent variable is the MSE

⁴¹ Normalisation involves transforming the item scores into optimal scores by regression yielding a mean and standard deviation close to 0 and 1, respectively (Gow, 2010).

performance (PerfScore). This is a numeric variable measured on a continuous scale.

Variables of interest: There are four variables of interest (binary in nature) representing each of the four participant categories in this study (see Figure 4 section 4.3 in chapter four) and they create six possible combinations of receipt of microcredit and BDS. The variables are coded as follows;

Variable name	Variable label	Code
CDTBDS	Participant MSE owner-managers who use microcredit and BDS.	= (1) if case applies, otherwise (0).
CDT	Participant MSE owner-managers who use microcredit	= (1) if case applies, otherwise (0).
CDTEx	Participant MSE owner-managers who use microcredit without BDS	= (1) if case applies, otherwise (0).
BDS	Participant MSE owner-managers who use BDS	= (1) if case applies, otherwise (0).
BDSEx	Participant MSE owner-managers who use BDS without microcredit	= (1) if case applies, otherwise (0).
NOCtBS	Participant MSE owner-managers who use neither microcredit nor BDS	= (1) if case applies, otherwise (0).

Control variables:

There are six variables included in the category of control variables namely; gender, age, owner managers' education, type of business activity, perceived state of business establishment (is the business stable and been operational for three years or more?), and business family background. Given that women have been found to be better entrepreneurs than men (Akoten, 2007a) and that the educated are likely to be more skillful in management than the less educated, it is argued here that MSE owner-manager's gender and level of education are likely to influence the performance of their enterprise. Similarly, it is likely that the MSE owner-managers who come from a business-family background are likely to have acquired some useful experience which is likely to be reflected in their decision making. Further as people get older they are likely to become more risk averse and more conservative. Therefore younger MSE owner-managers are expected to be more aggressive and innovative, attributes that could lead to better prospects in their businesses. In addition it is possible that MSE performance is influenced by the business activity or industry in which an entrepreneur engages (Boter, 2005). The size of a business and its perceived state of establishment

are also likely to determine performance in that with stability comes customer loyalty, an aspect that could improve sales turnover. According to Masakure et al. (2009) the above variables represent contextual factors that mediate the relationship between BDS and MSE performance (see further discussion in section 2.4 in chapter two).

Consistent with their previous use (see Jayawarna et al., 2007, Masakure et al., 2009, Chi et al., 2008), these variables are used here as control variables to enable the author to explore possible explanations to observed variations in self-rated business performance across the four participant categories. These variables are operationalised to be binary in nature and the descriptive analysis informs the coding, which is as follows;

Variable name	Variable label	Code
Gender	Sex of the participant MSE owner-manager	= (1) if female, otherwise (0)
Age	Participant MSE owner-manager's age in years	= (1) if aged below 40 years, otherwise (0)
Education	Participant MSE owner-manager's level of general education	= (1) if tertiary and above, otherwise (0)
Type of business activity	Nature of economic activity undertaken	= (1) if trade related, otherwise (0)
Business Establishment	MSE owner-manager's perception of the establishment of their business	= (1) if perceived as established, otherwise (0)
Business family background	MSE owner-manager raised in a family which runs a business	= (1) if raised in a business family, otherwise (0)

There are four MSE performance-related hypotheses to be tested, reproduced here for convenience from chapter three:

- H₁ MSEs with no access to either microcredit or BDS perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.
- H₂: MSEs with access to microcredit without BDS perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.
- H₃: MSEs with access to BDS without microcredit perform more poorly, on owner-managers' self reported score of performance, compared to MSEs that have access to both microcredit and BDS.

- H₄: MSEs that have access to either microcredit or BDS perform better, on owner-managers' self-reported score of performance, compared to MSEs with access to neither microcredit nor BDS.

Note that H₂ provides an 'acid test' regarding the two competing logics, from a neo-institutional perspective, in the field of microfinance. These include both social and commercial logics as discussed in section 3.3.2 of chapter three. The other three hypotheses (H₁, H₃, and H₄) test for the differential impact of access to cultural and/or economic capital on MSE performance.

For the purposes of testing the above hypotheses the notations in following table are used.

Symbol (notation)	Description
P	MSE's PerfScore
BDS	Access to business development services
CDT	Access to microcredit
ε	Regression residual or error term

7.2.2 Results of Testing Hypothesis 1

Descriptive Statistics

The following table, Table 31a, presents descriptive statistics for variables included in ordinary least squares (OLS) regression used to test Hypothesis 1. According to this Table, the mean normalised self-rated score on performance for participant MSE owner-managers who do not use either microcredit or BDS is -3.15⁴² (σ =4.08, sk=0.64) compared to a mean performance score of 2.01 (σ =2.74, sk=-1.31) for participant MSE owner-managers who use both microcredit and BDS. This implies that on a univariate basis, businesses run by participant MSE owner-managers who use both microcredit and BDS are likely to report better performance scores than businesses belonging to participant MSE owner-managers who do not use either microcredit or BDS. The difference in self-rated performance by participant MSE owner-managers in the two groups is highly significant (t-test = 6.69, p<0.001).

In both participant categories, there are more males than females [57 per cent (σ =0.49, sk=0.57) for participant MSE owner-managers who do not use microcredit or BDS and 68 per cent (σ =0.49, sk=0.51) for participant MSE owner-managers who use microcredit and BDS]. With a chi-square value of 0.11 and Pearson's score of 0.36, the difference in gender distribution between the two participant categories is not

⁴² The negative sign against the *beta* value means that participant MSE owner-managers who have no access to microcredit or BDS are likely to experience declining self-rated performance for their enterprises, other factors held constant.

statistically significant. In terms of age, most of the participants are aged below 40 years with 79 per cent ($\sigma = 0.41$, $sk = -1.48$) in the category of MSE owner-managers who do not use microcredit or BDS and 67 per cent ($\sigma = 0.48$, $sk = -0.73$) in the category of participant MSE owner-managers who use microcredit and BDS. This difference is not significant ($Ch^2 = 1.51$, $p = 0.10$).

Pertaining to education, Table 31a shows that the majority (63 per cent, $\sigma = 0.49$, $sk = 0.57$) of the participant MSE owner-managers who do not use microcredit or BDS have below tertiary level education, while 74 per cent ($\sigma = 0.45$, $sk = -1.12$) of the participant MSE owner-managers who use microcredit and BDS have tertiary and above level education. The difference in education level among participant MSE owner-managers in these two categories is significant with a chi-square value of 11.08, at $p < 0.05$. This means that participant MSE owner-managers who use microcredit and BDS have relatively higher education than their counterparts who do not use either microcredit or BDS.

The type of business activity for half (50 per cent, $\sigma = 0.50$, $sk = 0.00$) of the participant MSE owner-managers who use microcredit and BDS is 'other than trade' compared with 58 per cent ($\sigma = 0.50$, $sk = 0.33$) of MSE owner-managers who use neither MFI nor BDS and this difference is not significant ($Ch^2 = 0.50$, $p = 0.23$). In both participant categories there are few cases of participants raised in a business-family background. For example 84 per cent ($\sigma = 0.37$, $sk = 1.95$) of the participant MSE owner-managers who do not use either microcredit or BDS did not come from a business family background. The same is true for a similarly high proportion (76 per cent) ($\sigma = 0.43$, $sk = 1.23$) of participant MSE owner-managers who use both microcredit and BDS. The observed difference in family background is not statistically significant ($Ch^2 = 0.80$, $p = 0.37$). On the basis of business growth, most of the businesses are viewed to be established (that is have been in operation for three years or more). This is the case for 59 per cent ($\sigma = 0.50$, $sk = -0.40$) of businesses run by participant MSE owner-managers who use microcredit and BDS, and for 55 per cent ($\sigma = 0.50$, $sk = 0.22$) of businesses belonging to participant MSE owner-managers who do not use either microcredit or BDS ($Ch^2 = 1.75$, $p = 0.09$).

Table 31a: Descriptive statistics for variables included in testing Hypothesis 1 (N=80)

	Participant category										T-test value	<i>p</i> value
	Users of neither microcredit nor BDS (n=38)					Users of microcredit and BDS (n= 42)						
	Mean	SD	Skewness	Min	Max	Mean	SD	Skewness	Min	Max		
Performance score	-3.15	4.08	0.64	- 9.24	5.84	2.01	2.74	-1.31	- 6.03	5.55	6.69	0.000
	Mode (%)					Mode (%)					Chi- Square test value	
Age	1 (79%)	0.41	-1.48			1 (67%)	0.48	-0.73			1.51	0.104
Gender	0 (68%)	0.49	0.57			0 (57%)	0.49	0.51			0.11	0.364
Owner- managers’ education	0 (63%)	0.49	0.57			1 (74%)	0.45	-1.12			11.08	0.000
Type of business activity	0 (42%)	0.50	0.33			0 (50%)	0.51	0.00			0.50	0.234
Business establishment	0 (55%)	0.50	0.22			1 (59%)	0.50	-0.40			1.75	0.093
Business- family background	0 (84%)	0.37	1.95			0 (76%)	0.43	1.23			0.80	0.180

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Correlation Coefficients for Variables Involved in Testing Hypothesis 1

The following table, Table 31b, presents results of pair-wise Pearson's correlations between the nine variables entered into the OLS regression used to test the first hypothesis. The two participant categories included in testing Hypothesis 1 jointly constitute a total of 80 participant MSE owner-managers. According to the Table, generally there are low Pearson's correlations amongst all variables. The highest correlation recorded is between owner-managers level of education and participants' self-rated performance score ($r = 0.320$), which is significant at $p < 0.05$, while the lowest correlation reflected is -0.356 . There is a strongly significant correlation, though negative, associated with belonging to the participant category of those who do not use either microcredit or BDS and the performance score ($r = -0.46$, sig. at $p < 0.001$). Further the Table reveals significant correlations between performance scores and participants' general level of education ($r = 0.32$, sig. at $p < 0.001$).

Table 31b: Pearson's correlations (Hypothesis 1) (N=80)

	Users of microcredit only	Users of BDS only	Use of both BDS and micro credit	Neither users of credit nor BDS	Gender	Age	Owner-man-agers' education	Type of business activity	Business establishment	Business-family background
Neither users of microcredit nor BDS	-1.00***	-1.00***	-1.00***							
Gender	-.085	.023	.052	.007						
Age	-.043	-.035	-.035	.116	-.007					
Owner-managers' education	-.122	.104	.218***	-.211***	.019	-.184**				
Type of business activity	-.010	-.005	.052	-.039	.040	.010	.086			
Establishment of business	-.066	.021	.106	-.066	-.113	-.249***	-.001	-.049		
Business-family background	-.016	-.079	.110	-.016	-.027	.082	-.169*	-.078	.111	
Performance Score	0.01	0.12	0.31***	-0.46***	0.12	0.05	0.32***	0.10	0.10	-0.01

*** sig. at p <0.001; ** sig at p <0.05; * sig. at p <0.10

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Regression results for Hypothesis 1

The model used to test Hypothesis 1 is expressed as follows;

Performance score = f (access to microcredit and BDS, access to neither microcredit nor BDS, control variables).

Where the Performance score and control variables are as described in section 7.2.1 of this chapter.

Algebraically; $P = a + \beta_1 \text{CDTBDS} + \beta_2 \text{NOCtBS} + \text{control variables} + \varepsilon$

Testing $H_o: \beta_1 = \beta_2 = 0$; against $H_a: \beta_2 < \beta_1$

This test is carried out using an OLS regression procedure and results are presented in Table 31c. Overall the results show that participant MSE owner-managers who are users of microcredit and BDS are likely to score higher on self-rated performance (beta = 1.05, $t = 1.66$, $p < 0.05$) than participant MSE owner-managers who use neither microcredit nor BDS (beta = -3.43, $t = -5.35$, $p < 0.001$), while controlling for factors likely to affect self-rated performance.

Table 31c further shows that participants are likely to self-report higher performance results if they are aged above 40 years, and have an either tertiary or above tertiary level of education. These results are significant at $p < 0.05$. Businesses run by female participant owner-managers are likely to be associated with higher self-rated performance compared with those of males (beta = 0.97, $p < 0.05$). The results also show that participant businesses engaging in trade related activity are likely to record a 0.44 increase in self-rated performance compared to those engaging in non trade business activities. This difference is however not significant at the 95 per cent confidence limit. The model has an R^2 of 0.33 (SEE = 3.21, $N = 80$) and is significant ($F = 9.37$, $p < 0.001$).

In summary, testing for; $H_o: \beta_1 = \beta_2 = 0$; against $H_a: \beta_1 < \beta_2$, the calculated F test⁴³ of significance [used to distinguish the overall performance of the regression model and the relative contribution of its constituent variables (Gow, 2010)] statistic is 20.05, compared with a critical F table value of 3.00 (2,151 degrees of freedom). Given the

⁴³ The F value reported here is calculated from error sum of squares (ErrSS) for the regression residuals of both the restricted (variables relating to the two participant categories removed) and the unrestricted (variables relating to the two participant categories entered) versions of the OLS regression.

fact that the observed F is greater than its critical value, the null hypothesis that participant MSE owner-managers who use microcredit and BDS and those who use neither of the two services have no influence on MSE owner-managers' self-ratings of performance of their enterprises, is rejected. With a β_1 equal to -3.43 ($t = -5.34$, $p < 0.001$) and β_2 equal to 1.05 ($t = 1.66$, $p < 0.05$), $\beta_1 < \beta_2$, the alternative hypothesis (Hypothesis 1) that participant MSE owner-managers who do not use microcredit and BDS perform more poorly on self-reported performance, compared to businesses belonging to participant MSE owner-managers who use microcredit and BDS, holds and thus the evidence supports Hypothesis 1. Therefore from a Bourdieusian view, MSE owner managers with access to cultural and economic capital perceive themselves as better off (in MSE performance terms) compared to those without.

Table 31c: Hypothesis 1- Ordinary Least Squares (OLS) regression results (N=80)

Variable	Regression coefficient	Standard error	T-test	p value
(Constant)	-2.482	0.799	-3.105	0.001
Users of both microcredit and BDS	1.046	0.630	1.661	0.049
Neither users of microcredit nor BDS	-3.432	0.642	-5.349	0.000
Age	1.467	0.583	2.517	0.006
Gender	0.973	0.533	1.826	0.035
Owner-managers' education	1.793	0.548	3.275	0.000
Type of business activity	0.438	0.513	.854	0.190
Business establishment	0.945	0.535	1.765	0.041
Business-family background	-0.143	0.702	-0.204	0.424

$R^2 = 0.34$, $Adjusted R^2 = 0.29$, $SEE = 3.21$

a. Dependent Variable: PerfScore = SUM(TRA1_1, TRA2_1, TRA3_1, TRA4_1, TRA5_1)

Legend: BDS=Business development services; gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. established for 3 years or more); business family background (1/0) = raised in a business family.

7.2.3 Results of Testing Hypothesis 2

The second hypothesis as specified in chapter three seeks to test whether participant MSE owner-managers who use microcredit and BDS (consumers of social logic driven microfinance) are likely to give a higher performance rating for their businesses compared to performance ratings of participant MSE owner-managers who use microcredit without BDS (consumers of commercial logic driven microfinance).

Starting with descriptive statistics, followed by correlation and regression analysis, the results of testing this hypothesis are as follows.

Descriptive statistics

Table 32a presents descriptive statistical comparisons of the two participant categories (i.e. participant MSE owner-managers who use microcredit and BDS and those using microcredit without BDS) across the seven variables (see variable coding in previous section 7.2.1) entered in the OLS regression. According to this Table, participant MSE owner-managers who use microcredit as well as BDS are likely to give a higher performance rating to their businesses ($\bar{x}=2.01$, $\sigma=2.74$, $sk=-1.31$) compared to participant MSE owner-managers who use microcredit without BDS ($\bar{x}=0.08$, $\sigma=3.32$, $sk=-0.30$). The mean difference in self-rated performance scores between participants in the two categories is highly significant (t-test = 71.96, $p<0.001$).

There are more participants aged below rather than above 40 years in the two participant categories with 66 per cent ($\sigma=0.48$, $sk=-0.69$) reported among participant MSE owner-managers who use microcredit without BDS and 67 per cent ($\sigma=0.48$, $sk=-0.73$) for their counterparts who used microcredit and BDS. This difference is not significant ($Ch^2=0.007$, $p=0.934$). Although both categories have more male participants than females, there is no significant difference in gender distribution between the two participant categories ($Ch^2=1.17$, $p=0.14$). Male participants constitute 60 per cent ($\sigma=0.46$, $sk=0.97$) of the participant MSE owner-managers who use microcredit without BDS, and 57 per cent ($\sigma=0.49$, $sk=0.51$) of the participant MSE owner-managers who use microcredit and BDS.

Turning to education, Table 32a shows that of the 42 participant MSE owner-managers who use both microcredit and BDS, 74 per cent ($\sigma=0.045$, $sk=-1.12$) have tertiary level education or higher. As for the participant MSE owner-managers who use microcredit without BDS, 55 per cent ($\sigma=0.50$, $sk=0.22$) have below tertiary level education. Consequently, the difference in education levels among participants in these two categories is highly significant ($Ch^2=7.03$, $p<0.001$). Additionally there is a weakly significant difference ($Ch^2=1.75$, $p<0.09$) in the perceived level of establishment of their businesses between participants who use microcredit and BDS (established =59

per cent, $\sigma = 0.50$, $sk = -0.40$) and those who use microcredit without BDS (not-so established = 55 per cent, $\sigma = 0.50$, $sk = 0.22$). There is no significant difference in affiliation with a business family background between participants in the two categories. In both categories most participants do not come from families with a business orientation (84 per cent, $\sigma = 0.37$, $sk = 1.95$; and 75 per cent, $\sigma = 0.43$, $sk = 1.23$), for participant MSE owner-managers who use microcredit without BDS and their counterparts who use microcredit and BDS respectively.

From the foregoing univariate analysis it appears that the significant difference in self-rated performance between participants' businesses in the two participant categories could be attributed to (among other factors) differences in levels of education and age amongst participants. As already stated in the chapter on research method (chapter four) and in section 7.2.1 above, these variables are among key control variables used in the four perceived MSE performance related hypotheses tests of this study.

Correlation Coefficients for Variables Involved in Testing Hypothesis 2

Pair-wise Pearson's correlations results for the nine variables entered into the regression appear in Table 32b. In total the two participant categories included in testing Hypothesis 2 comprise 80 participant MSE owner-managers. In general most of the Pearson's correlations are low, implying minimal shared variance between the variables. It is important to note that there is a significant medium-sized correlation between self-rated performance scores by participant MSE owner-managers and the use of microcredit and BDS. Use of microcredit without BDS, and Owner-managers' education (at $p < 0.001$; $r = .306$, $-.306$, and 0.312 , respectively). There are also weakly significant inverse correlations between; owner-managers' education and use of credit without BDS; and perceived establishment of the business and age of the owner manager. In the first instance, participant MSE owner-managers who use microcredit without BDS are also likely to be in the class of those with below tertiary level education ($r = 0.296$, $p < 0.05$). In the second case with a Pearson's correlation of -0.255 ($p < 0.05$), participant owner-managers' aged below 40 years are likely to rate their businesses as not-so well established. Overall the low correlations reported in Table 32b, indicate low chance of shared variance amongst most of the variables.

Table 32a: Descriptive statistics for variables included in testing Hypothesis 2 (N=80)

	Participant category										T-test value	<i>p</i> value
	Users of microcredit without BDS (n=38)					Users of microcredit and BDS (n= 42)						
	Mean	SD	Skewness	Min	Max	Mean	SD	Skewness	Min	Max		
Performance score	0.08	3.32	-0.30	-6.21	5.57	2.01	2.74	-1.31	-6.03	5.55	2.84	0.006
	Mode (%)					Mode (%)					Chi-Square test value	
Age	1 (66%)	0.48	-0.69			1 (67%)	0.48	-0.73			0.01	0.943
Gender	0 (60%)	0.46	0.97			0 (57%)	0.49	0.51			1.17	0.140
Owner-managers' education	0 (55%)	0.50	0.22			1 (74%)	0.45	-1.12			7.03	0.004
Type of business activity	0 (55%)	0.50	0.22			0 (50%)	0.51	0.00			0.22	0.314
Business establishment	0 (55%)	0.50	0.22			1 (59%)	0.50	-0.40			1.75	0.093
Business-family background	0 (84%)	0.37	1.95			0 (76%)	0.43	1.23			0.80	0.185

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Table 32b: Pearson's correlations (Hypothesis 2) (N=80)

	Performance score	Use of both BDS and microcredit	Users of microcredit without BDS	Gender	Age	Owner-managers' education	Type of Business activity	Establishment of business
Use of both BDS and microcredit	.306***							
Users of microcredit without BDS	-.306***	-1.00***						
Gender	.096	.121	-.121					
Age	.037	.009	-.009	-.025				
Owner-managers' education	.312***	.296**	-.296**	.011	-.151			
Type of business activity	.040	.053	-.053	.089	-.151	.061		
Establishment of business	.203*	.148	-.148	-.142	-.255**	-.010	-.053	
Business-family background	-.004	.100	-.100	-.105	.093	-.102	-.225**	.163

*** sig. at $p < 0.001$; ** sig at $p < 0.05$; * sig. at $p < 0.10$

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Regression results for Hypothesis 2

The second regression can be expressed as follows;

Performance score = f (access to microcredit and BDS,
access to microcredit without BDS, control variables).

Where the Performance score and control variables are as described in section 7.2.1 of this chapter.

Algebraically; $P = a + \beta_1 \text{CDTBDS} + \beta_2 \text{CDTex} + \text{control variables} + \varepsilon$

Testing $H_0: \beta_1 = \beta_2 = 0$; against $H_a: \beta_2 < \beta_1$

This test is carried out using an OLS procedure and results are presented in following Table 32c.

Table 32c: Hypothesis 2- Ordinary Least Squares (OLS) regression results (N=80)

Variable	Regression coefficient	Standard error	t-test	p value
(Constant)	-4.302	0.881	-4.884	0.000
Use of both BDS and microcredit	2.508	0.678	3.698	0.000
Users of microcredit without BDS	1.542	0.684	2.255	0.013
Age	1.335	0.626	2.135	0.017
Gender	1.000	0.573	1.745	0.042
Owner-managers' education	2.268	0.584	3.887	0.000
Business activity	0.465	0.551	.844	0.200
Business establishment	1.061	0.576	1.843	0.033
Business-family background	-0.135	0.753	-0.180	0.429

$R^2 = 0.23$, Adjusted $R^2 = 0.20$, $SEE = 3.43$

a. Dependent Variable: PerfScore = SUM(TRA1_1, TRA2_1, TRA3_1, TRA4_1, TRA5_1)

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

The results show that participant MSE owner-managers who use both microcredit and BDS are likely to report higher self-rated performance scores for their businesses (beta = 2.51, $t = 3.70$, $p < 0.001$) compared to participant MSE owner-managers who use microcredit without BDS

(beta= 1.54, t= 2.26, p<0.05). However belonging to either of these two participant categories has a positive association with self-rated performance.

Participant MSE owner-managers' level of education has a highly significant influence on self-rated performance. For example, participant owner-managers with tertiary level and above education are likely to perceive higher self-rated performance of their businesses compared to those with below tertiary level education (beta =2.27, t = 3.89, p<0.001). Other variables contributing to significant differential self-rated performance scores include; age, gender and perceived business establishment. Participant MSE owner-managers aged below 40 years (young adults) are likely to perceive higher self-rated scores on the performance of their businesses compared to their older (above 40 years of age) counterparts (beta=1.34, t = 2.14, p<0.05). In addition female participant MSE owner-managers are more likely to rate the perceived performance of their businesses higher than their male colleagues (beta= 1.00, t = 1.75, p<0.05). Owner- managers with high perceptions on the stability of their businesses are likely to report higher scores on self-rated performance of their businesses compared to participant MSE owner-managers who perceive their businesses as less established (beta=1.06, t = 1.84, p<0.5). With a R^2 of 0.23 (SEE =3.43, N=80) the present model explains 23 per cent of the observed variations in self-rated performance scores among businesses of participant MSE owner-managers. The model is statistically significant (F = 5.67, p<0.001).

Given the results above, testing for $H_0: \beta_1 = \beta_2 = 0$; against $H_a: \beta_2 < \beta_1$, the observed value of F is 7.53, which exceeds the critical F table value of 3.00 at (df; 2,151). In light of this, the null hypothesis that each of the regression coefficients of the two participant categories is equal to zero does not hold. Further given that $\beta_1=2.51$ (t=3.70, p<0.001) while $\beta_2=1.54$ (t=2.26, p<0.05), β_2 is less than β_1 . It is therefore concluded that performance scores for businesses belonging to participant MSE owner-managers who use microcredit without BDS, perform more poorly (on owner-managers' self- reported score of performance) compared to businesses belonging to participant MSE owner-managers who use microcredit and BDS. The result is in support of Hypothesis 2. This result means that, from a Bourdieusian perspective, MSEs belonging to owner managers who concurrently have access to both economic and cultural capital enjoy a synergistic benefit compared to MSEs belonging to owner managers with access to economic capital singly. The implication of this result is that of the two competing logics in microfinancing, social logic driven microfinance is a better approach compared to a commercial approach.

7.2.4 Results of Testing Hypothesis 3

The third hypothesis on MSE performance as formulated in Chapter three tests whether self-rated performance scores for businesses belonging to participant MSE owner-managers in receipt of BDS without microcredit, are lower than those of businesses run by participant MSE owner-managers who use microcredit and BDS. Pair-wise comparisons of descriptive results for the nine variables (see section 7.2.1 of this chapter for details on variable measures) entered into the OLS regression are presented in Table 33a. The results reflect that participant MSE owner-managers in receipt of microcredit and BDS are likely to report higher self-rated performance for their businesses ($\bar{x}=2.01$, $\sigma=2.74$, $sk=-1.31$) compared to participant MSE owner-managers in receipt of BDS without microcredit ($\bar{x}=0.77$, $\sigma=3.19$, $sk=-0.60$). The difference in the mean self-rated performance scores between the two participant categories is significant at $p<0.05$ (t-test =1.91).

The distribution of participant age is even across the two participant categories (67 per cent for participants aged below 40 years). There is also a weakly significant difference between the two participant categories on the basis of participants' affiliations to business-family background ($\chi^2=2.03$, $p<0.10$).

Table 33a further shows that between participant MSE owner managers who use BDS without microcredit and those who use microcredit and BDS, there are no significant differences either on gender or owner-managers' education ($\chi^2=0.05$, $p=0.41$; $\chi^2=0.89$, $p=0.17$, respectively). In both participant categories however, there are more male participants than females, 69 per cent ($\sigma=0.49$, $sk=0.51$) for users of BDS without microcredit and 57 per cent ($\sigma=0.49$, $sk=0.51$) for users of microcredit and BDS. Most participant MSE owner-managers have a tertiary level education. This is the case for 74 per cent ($\sigma=0.45$, $sk=-1.12$) of participant MSE owner-managers in receipt of microcredit and BDS, and 64 per cent ($\sigma=0.49$, $sk=-0.62$) of participant MSE owner-managers who use BDS without microcredit. Similarly no significant differences are observed in perceptions on the state of establishment of participants' businesses between participant MSE owner-managers who use BDS without microcredit and those who use both ($\chi^2=0.44$, $p=0.25$).

Table 33a: Descriptive statistics for variables included in testing Hypothesis 3 (N=84)

	Participant category										T-test value	p value
	Users of BDS without microcredit microcredit(n=42)					Users of microcredit and BDS (n= 42)						
	Mean	SD	Skewness	Min	Max	Mean	SD	Skewness	Min	Max		
Performance score	0.77	3.19	-0.60	-6.82	6.03	2.01	2.74	-1.31	-6.03	5.55	1.91	0.030
	Mode (%)					Mode (%)					Chi- Square test value	
Age	1 (67%)	0.48	-0.73			1 (67%)	0.48	-0.73			0.00	1.00
Gender	0 (69%)	0.49	0.51			0 (57%)	0.49	0.51			0.05	0.411
Owner-managers' education	1 (64%)	0.49	-0.62			1 (74%)	0.45	-1.12			0.89	0.172
Type of business activity	0 (55%)	0.50	0.20			0 (50%)	0.51	0.00			0.19	0.331
Business establishment	1 (52%)	0.50	-0.10			1 (59%)	0.50	-0.40			0.44	0.250
Business-family background	0 (88%)	0.33	2.44			0 (76%)	0.43	1.23			2.03	0.072

Table 33b: Pearson's correlations (Hypothesis 3) (N=84)

	Users of microcredit and BDS	Users of BDS only	Gender	Age	Owner-managers' education	Type of business activity	Establishment of business	Business-family background
Users of BDS only	-1.000***							
Gender	.024	-.024						
Age	.000	.000	-.052					
Owner-managers' education	.103	-.103	.011	-.091				
Type of business activity	.048	-.048	.063	.118	-.032			
Establishment of business	.072	-.072	-.072	-.220**	-.075	-.114		
Business-family background	.155	-.155	.070	.132	-.091	-.196	.038	
Performance score	.206	-.206	.090	.187	.118	.208	.096	.053

*** sig. at $p < 0.001$; ** sig at $p < 0.05$ Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Correlation Coefficients for Variables Involved in Testing Hypothesis 3

Results of bivariate Pearson's correlations among the nine variables entered in the OLS regression for Hypothesis 3 are presented in Table 33b. The dataset used to examine the correlations constitutes participant MSE owner-managers who use BDS without microcredit and participant MSE owner-managers who use microcredit as well as BDS (the two participant categories of interest in Hypothesis 3). In total there are 84 participant MSE owner-managers in these two categories.

Except for the correlation ($r = -1.00$, $p < 0.001$) between the two variables representing participant categories (i.e. users of BDS without microcredit and users of microcredit and BDS), overall there are small correlations (Pearson's $r < 0.29$) between all variables (Cohen, 1988). The highest Pearson's correlation recorded is 0.208 between participant owner-managers' self-rated performance scores for their businesses and the type of business activity undertaken. This is however not found to be significant. There is virtually no correlation between participants' age and either use of BDS without microcredit or use of BDS with microcredit ($r = 0.001$).

As previously noted (see Table 32b) there is a small, significant correlation between participants' age and the perceived state of establishment of their businesses ($r = -0.22$, $p < 0.05$). Although previously participant MSE owner-managers' education was seen to be significantly correlated with perceived self-rated performance of their businesses (see Table 32b), this is not the case for the current categories of participants ($r = 0.118$, $p > 0.05$).

Regression results for testing Hypothesis 3

In this section the test hypothesis is that MSEs with access to BDS without microcredit are likely to perform more poorly (on owner-managers' self reported score of performance), compared to MSEs that have access to microcredit and BDS. The OLS regression carried out can be expressed as follows;

Performance score = f (access to microcredit with BDS, access to BDS without microcredit, control variables).

Where the Performance score and control variables are as described in section 7.2.1 of this chapter.

Algebraically; $P = a + \beta_1 \text{CDTBDS} + \beta_2 \text{BDSex} + \text{control variables} + \varepsilon$

Testing $H_0: \beta_1 = \beta_3 = 0$; against $H_a: \beta_3 < \beta_1$

Test results are presented in the following Table 33c.

Table 33c: Hypothesis 3- Ordinary Least Squares (OLS) regression results (N=84)

Variable	Regression coefficient	Standard error	T-test	p value
(Constant)	-4.023	0.835	-4.819	0.000
Use of both microcredit and BDS	2.777	0.697	3.982	0.000
Use of BDS without microcredit	1.810	0.673	2.691	0.004
Age	1.206	0.619	1.949	0.026
Gender	0.817	0.568	1.439	0.076
Owner-managers' education	1.875	0.589	3.181	0.001
Type of business activity	0.482	0.547	0.882	0.189
Business establishment	0.862	0.572	1.507	0.067
Business-family background	-0.080	0.748	-0.107	0.457

$R^2 = 0.24$, Adjusted $R^2 = 0.20$, $SEE = 3.42$

a. Dependent Variable: PerfScore = SUM(TRA1_1, TRA2_1, TRA3_1, TRA4_1, TRA5_1)

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

From the results presented in Table 33c, it appears that participant MSE owner-managers who use microcredit and BDS are more likely to report higher self-rated performance scores (beta =2.78, t= 3.98, p<0.001) for their businesses, compared to participant MSE owner-managers who use BDS without microcredit (beta =1.81, t= 2.69, p<0.05). Again MSE owner-managers who belong to either of these two participant categories are likely to report a positive self-rated performance score for their enterprises. This result is consistent with previous results presented in section 7.2.3.

Owner managers' education is once again found to have a strong significant association with self-rated performance on participant MSE owner-managers' businesses (beta =1.88, t =3.18, p<0.05). Being a binary variable, the positive regression coefficient for education implies that participant MSE owner-managers who have tertiary or higher level education are likely to report higher self-rated performance scores for their businesses than their counterparts with below tertiary level education.

As noted in the previous section, younger adult participant MSE owner-managers (aged below 40 years) are more likely to register higher self-rated performance ratings for their businesses (beta =1.21, t = 1.95, p<0.05) than the older (aged above 40 years) participant MSE owner-managers. Table 33c further reveals that participant MSE owner-managers who engage in trade are likely to report higher self-rated performance for their businesses than their counterparts who are engaged in non-trade business activity. The difference is however not statistically significant (beta =0.48, t = 0.88, p =0.19). Additionally participant MSE owner-managers who perceive their business as established are more likely to report higher self-rated performance for their businesses (beta =0.86, t = 1.51, p =0.07) than those who perceive their businesses as less established.

In general besides access to microcredit and/or BDS, the only other variables that have a significant influence on self-rated performance of participants' businesses (for the current categories of participants), are owner managers' level of education, age, and perceived state of establishment of participants' businesses. The R^2 for the present model is equal to 0.24 (SEE =3.42, N= 84). The model is statistically significant with an $F = 6.01$ at $p<0.001$.

Given the results above, testing for $H_0: \beta_1 = \beta_3 = 0$; against $H_a: \beta_3 < \beta_1$: reveals a F-test statistic of 8.68, compared with a critical value of 3.00 from the F– distribution with (2,151) degrees of freedom at 95 per cent confidence. Since the F-test statistic of 8.68 exceeds that critical value of 3.00, the null hypothesis that each of the regression coefficients of the two participant categories is equal to zero is rejected. Consequently given that β_3 has an observed value of 1.81, compared to β_1 with an observed value of 2.77, $\beta_3 < \beta_1$, it is therefore concluded that the alternative hypothesis, Hypothesis 3, that participant MSE owner-managers who use BDS without microcredit are likely to report

lower self-rated performance for their businesses than their counterparts who use microcredit and BDS, holds. Further in Bourdieu's words 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.

7.2.5 Results of Testing Hypothesis 4

Hypothesis 4 is the last hypothesis dealing with MSE performance. The Hypothesis examines whether self-rated performance scores for businesses belonging to participant MSE owner-managers in receipt of either BDS or microcredit are higher than participant MSE owner-managers who use neither microcredit nor BDS. Pair-wise comparisons of descriptive results for the ten variables (see section 7.2.1 of this chapter for details on variable measures) entered into the OLS regression appear in Table 34a.

According to the Table, participant MSE owner-managers who do not use either microcredit or BDS are likely to report lower self-rated performance ($\bar{x} = -3.15$, $\sigma = 4.08$, $sk = 0.64$) for their businesses compared with participant MSE owner-managers who use either BDS or microcredit ($\bar{x} = 1.39$, $\sigma = 3.02$, $sk = -0.90$ and $\bar{x} = 1.10$, $\sigma = 3.16$, $sk = -0.75$, respectively). In both cases the difference in self-rated performance scores amongst participant MSE owner-managers is highly significant ($t = -6.14$, $p < 0.001$ and $t = 5.66$, $p < 0.001$, respectively).

Further the Table reveals that there are significant differences between participant MSE owner-managers in receipt of either BDS or microcredit, and their counterparts in receipt of neither BDS nor microcredit with regard to Age and Education ($Ch^2 = 2.86$, $p < 0.05$ and $Ch^2 = 4.37$, $p < 0.05$ respectively for Age; $Ch^2 = 11.22$, $p < 0.001$ and $Ch^2 = 0.54$, $p < 0.05$ respectively for Education). Across the three participant categories, most participants are aged below 40 years. However there are more cases of participant MSE owner-managers with tertiary level and above education in the category of users of BDS (69 per cent, $\sigma = 0.47$, $sk = -0.84$) and the category of users of microcredit (60 per cent, $\sigma = 0.49$, $sk = -0.42$), compared to the category of users of neither microcredit nor BDS where most (63 per cent, $\sigma = 0.49$, $sk = -0.57$) participant MSE owner-managers have below tertiary level education.

The other variables reported in Table 34a do not reveal any significant differences amongst participants within the three categories. In general across the three participant categories, there are more cases of male participants than females (60 per cent, 65 per cent and 68 per cent for users of neither BDS, users of microcredit and users of neither microcredit nor BDS respectively). In addition the business activity for most of the participant MSE owner-managers across the three participant categories, is non-trade related (52 per cent for each of the categories of users of BDS and users of microcredit, and 57 per cent for the category of users of neither microcredit nor BDS). Table 34a also shows that most participant MSE owner-managers who are either users of BDS or microcredit perceive their businesses as established (56 per cent and 52 per cent respectively) while a majority (55 per cent) of participant MSE owner-managers who are neither users of BDS nor microcredit perceive their businesses as not so established.

Table 34a: Descriptive statistics for variables included in testing Hypothesis 4 (N=118)

	Participant category										T-test value	p value
	Users of BDS (n=84)					Users of neither microcredit nor BDS (n=38)						
	Mean	SD	Skewness	Min	Max	Mean	SD	Skewness	Min	Max		
Performance index score	1.39	3.02	-0.90	-6.82	6.03	-3.15	4.08	0.64	-9.24	5.84	-6.14	0.000
	Mode					Mode					Chi- Square test value	
Age	1 (66%)	0.47	-0.72			1 (79%)	0.41	-1.48	1 (79%)	0.41	2.86	0.044
Gender	0 (60%)	0.49	0.45			0 (68%)	0.49	0.57	0 (68%)	0.49	0.07	0.393
Owner-managers' education	1 (69%)	0.47	-0.84			0 (63%)	0.49	0.57	0 (63%)	0.49	11.22	0.001
Type of business activity	0 (52%)	0.50	0.10			0 (57%)	0.50	0.33	0 (42%)	0.50	0.32	0.280
Business establishment	1 (56%)	0.50	-0.24			0 (55%)	0.50	0.22	0 (55%)	0.50	1.32	0.122
Business-family background	0 (82%)	0.39	1.71			0 (84%)	0.37	1.95	0 (84%)	0.37	0.07	0.394
	Participant category										T-test value	p value
	Users of microcredit (n=80)					Users of neither microcredit nor BDS (n=38)						
	Mean	SD	Skewness	Min	Max							
Performance index score	1.10	3.16	-0.75	-6.21	5.57						-5.66	0.000
	Mode (%)										Chi- Square test value	
Age	1 (66%)	0.48	-0.70								4.37	0.012
Gender	0 (65%)	0.48	0.64								0.04	0.422
Owner-managers' education	1 (60%)	0.49	-0.42								5.54	0.008
Type of business activity	0 (52%)	0.50	0.10								0.30	0.291
Business establishment	1 (52%)	0.50	-0.10								0.62	0.210
Business-family background	0 (80%)	0.40	1.53								0.30	0.291

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

Table 34b: Pearson's correlations (Hypothesis 4) (N=118)

	Gender	Age	Owner-managers' education	Type of business activity	Establishment of business	Business-family background	Users of microcredit without BDS	Users of BDS without microcredit	Neither users of credit nor BDS
Age	.045								
Owner-managers' education	.030	-.215**							
Type of business activity	-.038	.053	.117						
Establishment of business	-.123	-.275***	-.018	-.092					
Business-family background	-.046	.055	-.259***	.025	.093				
Users of microcredit without BDS	-.084	-.069	-.061	.009	-.038	.027			
Users of BDS without microcredit	.052	-.060	.225**	.018	.073	-.053	-.512***		
Neither users of credit nor BDS	.030	.130	-.170	-.027	-.038	.027	-.475***	-.512***	
Performance score	.147	.057	.280***	.121	.049	-.040	.142	.283***	-.432***

*** sig. at $p < 0.001$; ** sig at $p < 0.05$; * sig. at $p < 0.1$

Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family

Correlation Coefficients for Variables Involved in Testing Hypothesis 4

Results of pair-wise Pearson's correlations among the ten variables entered in the OLS regression for Hypothesis 4 appear in Table 34b. These results are generated from the sample of 118 cases of participant MSE owner-managers who are users of either BDS or microcredit (n=80) and participant MSE owner-managers who use neither microcredit nor BDS (n=38). In general there are insignificant, low correlations amongst most of the variables. Though significant, Pearson's correlations between variables representing participant categories are modest. Correlations amongst these variables range from -0.475 to -0.512 once again with negative signs confirming that these are mutually exclusive participant categories.

Table 34b further shows a significant modest negative correlation between self-rated performance and the lack of use of microcredit and BDS ($r = -0.432$, $p < 0.001$). There is however a small, positive significant correlation between self-rated performance and use of BDS without microcredit ($r = 0.283$, $p < 0.001$). Amongst all the other seven variables the largest Pearson's correlation recorded is 0.280 between participant MSE owner-managers' education and self-rated performance of their businesses, which is significant at $p < 0.001$. The lowest correlation in the latter group of variables is 0.018.

It is important to note that the correlations between participant MSE owner-managers' age and perceptions on the state of establishment of their businesses ($r = -.275$, $p < 0.001$) is significant. This implies that participants, who perceive their businesses as established, are unlikely to be young adults (aged below 40 years). In addition participants who are raised in a business-family background are unlikely to hold tertiary level education and above ($r = -0.295$, $p < 0.001$). Overall the Pearson's correlations in Table 24b are low and therefore present minimal problems with multicollinearity.

Regression results for Hypothesis 4

In this section the Hypothesis being tested (4) is that MSE owner-managers with access to either BDS or microcredit are likely to perform better, on owner-managers' self reported score of performance, compared to participant MSE owner-managers who have access to neither microcredit nor BDS. The OLS regression undertaken in this regard is expressed as follows;

Performance score = f (access to BDS, access to microcredit,
access to neither microcredit nor BDS, control variables).

Where the Performance score and control variables are as described in section 7.2.1 of this chapter.

Algebraically; $P = a + \beta_1 BDS + \beta_2 CDT + \beta_3 NOCtBS + \text{control variables} + \varepsilon$

Testing $H_0: \beta_1 = \beta_2 = \beta_3 = 0$; against $H_a: (\beta_1: \beta_2) > \beta_3$

The following table, Table 24c, presents the OLS test results for the fourth hypothesis.

Table 34c: Hypothesis 4- Ordinary Least Squares (OLS) regression results (N=160)

Variable	Regression coefficient	Standard error	T-test	p value
(Constant)	-3.520	1.064	-3.307	0.000
Users of BDS	1.133	0.751	1.509	0.056
Users of microcredit	0.976	0.711	1.373	0.086
Neither users of microcredit nor BDS	-2.376	1.028	-2.312	0.011
Age	1.461	0.586	2.494	0.007
Gender	0.964	0.536	1.799	0.037
Owner-managers' education	1.776	0.555	3.197	0.001
Type of business activity	0.439	0.515	0.853	0.197
Business establishment	0.936	0.539	1.737	0.042
Business-family background	-0.141	0.704	-0.199	0.421

$R^2 = 0.33$, Adjusted $R^2 = 0.29$, SEE = 3.22

a. Dependent Variable: PerfScore = SUM(TRA1_1, TRA2_1, TRA3_1, TRA4_1, TRA5_1)
Legend: BDS=Business development services; performance score = composite of sum of scores on growth in sales (TRA1_1), profit (TRA2_1), business savings (TRA3_1), cash flow (TRA4_1), and stock/service orders (TRA5_1); gender (1/0) = female; age (1/0) = aged below 40 years; education (1/0) = tertiary and above; type of business activity (1/0) = trade related; business establishment (1/0) = perceived as established (i.e. operational for three or more years); business family background (1/0) = raised in a business family.

The OLS results appearing in Table 34c suggest that amongst the three participant categories used in testing Hypothesis 4, participant MSE owner-managers who use BDS without microcredit are likely to report higher self-rated scores on the performance of their businesses (beta =1.13, t =1.51, p<0.10) compared to participant MSE owner-managers who use microcredit without BDS (beta =0.98, t =1.37, p<0.10) and those who use neither of the two services (beta =-2.38, t =-2.31, p<0.05). With the exception of the latter, these results display weak significance. From this result, it appears that MSE owner managers with access to only cultural capital (BDS) compared to their counterparts with access to economic capital (microcredit) only, are likely to report higher performance for their enterprises.

The other variables which the results show to have a significant influence on self-rated performance scores by participant MSE owner-managers include participant MSE owner-managers' age (beta =1.46, t =2.49, p<0.05), gender (beta =0.96, t =1.80, p<0.05), education (beta =1.78, t =3.20, p<0.05), and perceived establishment of the business (beta =0.94, t =1.74, p<0.05). The above result implies that participant MSE owner managers; aged below 40 years, female, who perceive their businesses as established and who hold tertiary level education and above, are more likely than otherwise to record higher self rated performance of their businesses. This observation is in part consistent with previous results for these variables (see results in sections 7.2.3 and 7.2.4). The present model is significant (F = 8.28, p<0.001) with R² equal to 0.33 (SEE =3.22, N=118).

With the result presented above testing for $H_0: \beta_1 = \beta_2 = \beta_3 = 0$; against $H_a: (\beta_1: \beta_2) > \beta_3$, the value of F equal 13.39. The critical value of F as per the distribution table at (df; 3,151) is 2.60. Given that the observed value of F is greater than the critical value, the null hypothesis that self-rated performance scores by participant MSE owner-managers in receipt of either BDS or microcredit are not only equal to the self-rated performance scores by participant MSE owner-managers who do not use either BDS or microcredit, but also equal to zero, is rejected. Further it is observed that the beta coefficients for the participant MSE who use either BDS or microcredit are greater than the beta for their counterparts who use neither microcredit nor BDS ($\beta_1 = 1.13, \beta_2 = 0.98, \beta_3 = -2.38$). Given the fact that the value of β_3 (-2.38) is significant at p<0.05 the alternative hypothesis that participant MSE owner-managers who use either BDS or

microcredit are likely to record higher self-rated performance scores than participant MSE owner-managers who use neither of the two services, holds and supports Hypothesis 4. Therefore for MSE owner managers, as Bourdieu would have it, access to either cultural or economic capital has potential to improve the performance of their enterprises compared to those with access to neither.

7.3 Implications of test results for Hypotheses dealing with MSE performance

The main purpose for conducting tests of the hypotheses above is to assess the perceived significance of BDS and microcredit to the performance of micro and small enterprises. The test results pertaining to Hypotheses 1 and 4 appear to suggest that, as expected, businesses that belong to participant MSE owner-managers who do not use either BDS or microcredit are likely to be worse off in terms of self-rated performance than otherwise. This observation may be as a result of two primary reasons. Firstly it is likely that businesses run by participant MSE owner-managers who use neither BDS nor microcredit are newly established. This is confirmed by the significant univariate results (see Table 12a) which show that most participant MSE owner-managers who use neither BDS nor microcredit are younger than their counterparts.

Secondly it appears that the participant MSE owner-managers who do not use either BDS or microcredit lack the skills necessary to operate a business as successfully as their peers who do access these resources. As seen previously (Table 12a) most of the participants in the former category have less than tertiary level education, a factor that has a highly significant impact on the self-rated performance scores of participant MSE owner-managers' businesses in the multivariate analyses (see Tables 31c; 32c; 33c; and 34c).

Hypothesis test results further reveal that businesses belonging to participant MSE owner-managers who use either BDS or microcredit are significantly better off than their counterparts who use neither of the two services, in terms of self-rated performance (see Table 24c). However compared to businesses belonging to participant MSE owner-managers who use both BDS and microcredit, self-rated performance of businesses belonging to participant MSE owner-managers who use either BDS or microcredit is less impressive. This implies that businesses whose owner-managers use BDS and microcredit (i.e. have access to both cultural and economic forms of capital)

enjoy an additional, complementary benefit over and above the benefits that accrue from using either BDS or microcredit singly. From a neo-institutional perspective it appears that a social logic driven approach to microfinancing, which integrates provision of BDS and microcredit, is a better approach (in terms of perceived MSE performance) than a commercial one. This is more pronounced if microfinancing is seen as an anti-poverty mechanism.

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 enlighten their decision making. For example by using financial advisors, MSE owner-managers may over time gain proficiency in making more informed choices on the use of financial resources at their disposal. Similarly access to technical business support from BDS agents is likely to lead to improved operational efficiency. In general therefore, use of BDS among participant MSE owner-managers may not only breed new knowledge but also nurture skills. However, without access to economic capital (microcredit) most participant MSE owner-managers may not be in a position to access quality BDS, let alone to take advantage of their newly acquired knowledge and/or skills. In essence therefore the evidence supports the proposition that access to microcredit (among participant MSE owner-managers) is a necessary ingredient to accessing quality BDS, which in turn enables them to use their resources more productively.

Distinguishing between access to BDS and access to microcredit, results from testing Hypothesis 4 reveal that participant MSE owner-managers who use BDS are likely to report higher self-rated performance compared to their counterparts who use microcredit (see Table 34c). Although use of microcredit among participant MSE owner-managers is positively associated with self-rated performance, the impact is below that of BDS. First it could be argued that the performance differential, which currently is in favour of the use BDS in the presence of microcredit, may be due to the relatively high cost of microcredit discussed previously in section 6.3.3. Second, as reflected above and in Tables 11 and 34a, participant MSE owner-managers who use BDS have relatively higher education compared to their counterparts who use microcredit. With a habitus informed by the added benefit of higher education, participant MSE owner-managers who use BDS are likely to be more skilful in

managing their businesses. Third businesses belonging to participant MSE owner-managers who use BDS appear better established. For example participant owner-managers of these businesses not only report higher gross income, but also report more branches (see Table 17). Overall, controlling for education and their enterprises' state of establishment, MSE owner managers appear better off with access to cultural capital (BDS) than economic capital (microcredit) singly.

7.4 Tests of Hypotheses dealing with Effectiveness of BDS delivery

In this second section of chapter seven, consistent with Research Question 5 results of tests of hypotheses dealing with the perceived effectiveness of BDS delivery and the strategic fit between currently supplied BDS and the self-expressed needs of participant MSE owner-managers are presented.

7.4.1 Measurement of effectiveness of BDS delivery and coding of variables

The construct 'effectiveness of BDS delivery' is measured through the extent to which participant MSE owner-managers' express satisfaction with the currently supplied BDS in reference to their perceived BDS needs. The extent of satisfaction with BDS is reported using a five point ordinal scale ranging from 1= unsatisfactory, to 5= satisfactory. There is no neutral point on this scale.

Coding of Variables

Dependent Variable: The dependent variable in this case is satisfaction with BDS. Participant MSE owner-managers' scores on their perceived satisfaction with BDS, guided by the ordinal scale above, are recoded as follows; scores ranging from (1) to (3) are jointly recoded (0), indicating 'not satisfied' with current BDS, while scores 4 and 5 are jointly recoded (1), indicating 'satisfied' with current BDS. Therefore the resultant dependent variable 'SatBDSRec' is binary in nature.

Explanatory variables:

There are six variables which are likely to influence the effective delivery of BDS and hence recipients' satisfaction with it (see chapter three section 3.3.3 and section 4.6 of chapter four for further justification). These variables are all elicited from participant owner managers and include; source of BDS (professional versus personal; MFI linked

versus independent of MFI), type of BDS, BDS delivery mode, assessed competence⁴⁴ of BDS agent(s), assessed relationship between BDS agents and their clients, and participant MSE owner-managers' level of education. These variables can be expected to assist in explaining the observed variations in participant MSE owner-managers' BDS satisfaction ratings.

The control variables are binary in nature and the descriptive analysis informs the coding, which is as follows:

Variable name	Variable label	Code
BDSSrPrf	Professionals (e.g. consultants and accountants) used as main source of BDS	= (1) if source is professional, otherwise (0)
BDSSrMFI	Source of BDS linked to a MFI	= (1) if source is MFI related, otherwise (0)
BDSTpTec	Type of BDS is Technical (i.e. relates to specific business processes)	= (1) if technical, otherwise (0)
GrpBDSdel	Group mode of BDS delivery	= (1) if group, otherwise (0)
CompBDSag	Competence rating of BDS agents	= (1) if competent, otherwise (0)
RelBDSag	Relationship with BDS agents	= (1) if good, otherwise (0)
Education	Participant MSE owner-manager's level of general education	= (1) if tertiary and above, otherwise (0)

There are two hypotheses (H5 and H6) tested in this section; one relating to the effectiveness of BDS delivery and the other relating to perceived 'fitness' between supplied BDS and participant MSE owner-managers' BDS needs. These hypotheses relate to Research Question 5 stated in chapter one. The Hypotheses are reproduced for convenience from chapter three:

- H₅: Participant MSE owner managers in receipt of BDS that is perceived to be more effectively delivered are more likely to be satisfied with currently supplied BDS, compared to participant MSE owner managers in receipt of less effectively delivered BDS.
- H₆: Participant MSE owner managers who are satisfied with currently supplied BDS are more likely to report higher self-rated performance scores for their businesses, compared to participant MSE owner managers who are not satisfied with currently supplied BDS.

⁴⁴ Competence of BDS agents is assessed through participants' ratings on an ordinal scale ranging from 1 = incompetent, to 4 = competent.

7.4.2 Results of Testing Hypothesis 5

To test Hypothesis 5 logistic regression is used. Of the entire sample of 160 cases, there are 84 participant MSE owner-managers who use BDS, which represents the sub-sample used in testing Hypothesis 5. Participant MSE owner-managers' satisfaction with currently supplied BDS (SatBDSRec) is the dependent variable, while the control variables (factors expected to influence effective delivery of BDS) described above are the independent variables. First descriptive statistics for all variables are presented, followed by correlations and the logistic regression results.

Table 35a presents pair-wise comparisons of participant MSE owner-managers who are satisfied with the current BDS delivery and those who are not satisfied. The Table shows that of the 84 participant MSE owner-managers who use BDS, slightly more than half (45 or 54 per cent) are satisfied with its delivery currently, while 39 or 46 per cent) are not satisfied. The table reveals that 40 per cent of the participant MSE owner-managers use professional sources of BDS. Of these, 44 per cent are satisfied with the way it is delivered while 36 per cent are not satisfied. The difference is however not significant ($\chi^2 = 0.63$, $p = 0.426$). In the case of the 43 (51 per cent) participant MSE owner-managers whose source of BDS is affiliated to MFIs, 39 per cent of them state to be satisfied with its delivery compared to 31 per cent who are not. With a Chi-square value of 12.15 at $p < 0.001$, this difference is highly significant.

Turning to the specific type of BDS received, 44 per cent of the participant MSE owner-managers use technical BDS (see Table 35a). Of these, the majority 69 per cent are not satisfied with the current delivery of BDS while about one fifth (22 per cent) are satisfied with it. There is a highly significant difference ($\chi^2 = 18.73$, $p < 0.001$) between participant MSE owner-managers who are satisfied and those who are not. Table 35a further shows that there is no significant difference between participant MSE owner-managers who are satisfied and those who are not with the current BDS delivery where group mode of delivery is involved ($\chi^2 = 0.06$, $p = 0.802$). Of the 84 participant MSE owner-managers, nearly one half of them (48 per cent) report to have participated in group mode BDS delivery. There is an even distribution between participant MSE owner-managers who are satisfied with the current delivery of BDS (49 per cent) and those who are not satisfied (46 per cent). There is however no significant difference

between participant MSE owner-managers who are satisfied and those who are not satisfied with the current BDS delivery, whether or not they perceive their BDS agents as competent or have had a good relationship with them (57 per cent, $\chi^2 = 0.57$, $p = 0.449$, and 88 per cent, $\chi^2 = 0.06$, $p = 0.809$, respectively).

Of the 84 participant MSE owner-managers who use BDS, 58 (69 per cent) have either tertiary level education or above. Of these, a majority (78 per cent) indicate to be satisfied with the way BDS is currently delivered. However 59 per cent are not satisfied with the current BDS delivery. With a Chi-square value of 3.56 at $p < 0.10$, there is a weakly significant difference between these two groups. Overall it appears that participant MSE owner-managers' satisfaction with delivery of BDS is highly influenced by (among other things); owner-managers' education, technical type BDS and BDS agents' affiliation to an MFI. In contrast, at least on a univariate basis, satisfaction with BDS delivery does not seem to be associated with; relations with or competence of agents, group mode of delivery, or whether the source is professional or otherwise.

Table 35a: Descriptive statistics for variables included in testing Hypothesis 5 (N=84)

Variable	Satisfaction with BDS delivery		Total	Chi-square value	p value
	satisfied	not satisfied			
Professional source of BDS used	20 (44%)	14 (36%)	34 (40%)	0.63	0.426
MFI related source of BDS used	31 (69%)	12 (31%)	43 (51%)	12.15	0.000
Technical type BDS received	10 (22%)	27 (69%)	37 (44%)	18.73	0.000
Mode of BDS delivery	22 (49%)	18 (46%)	40 (48%)	0.06	0.802
BDS agents competence	24 (53%)	24 (62%)	48 (57%)	0.57	0.449
Good relations with BDS agents	40 (89%)	34 (87%)	74 (88%)	0.06	0.809
Owner managers' education	35 (78%)	23 (59%)	58 (69%)	3.46	0.063
Total (N=84)	45 (54%)	39 (46%)			

Legend: professional source of BDS used (1/0) = if professional; MFI related source of BDS used (1/0) = if MFI related; technical type BDS received (1/0) = if technical; group mode of BDS delivery (1/0) = if group; BDS agents competence (1/0) = if competent; good relations with BDS agents (1/0) = if yes; owner managers' education (1/0) = if tertiary and above.

Correlation Coefficients for Variables Involved in Testing Hypothesis 5 and 6

The following table, Table 35b, presents Pearson's correlations between the eight variables entered into the logistic regression for Hypothesis 5. According to the Table, with the exception of correlations with the dependent variable (satisfaction with BDS) there are low correlations amongst all other variables. The highest correlation is -0.285 between MFI sourced BDS and BDS of a technical nature. This is significant at $p < 0.05$. The lowest correlation is -0.007 between perceived competence of BDS agents and BDS of a technical nature. There are low but significant correlations between MFI sourced BDS and group mode of BDS delivery ($r = 0.263$, $p < 0.05$) and between perceived competence of BDS agents and the relationship with their clients ($r = 0.276$, $p < 0.05$).

Results in Table 35b further reveal that satisfaction with BDS delivery, among participant MSE owner-managers, is likely to be associated with BDS source being affiliated to an MFI ($r = 0.380$, $p < 0.001$). On the contrary, this is unlikely if BDS is of a technical nature ($r = -0.472$, $p < 0.001$).

Table 35b: Pearson's correlations (Hypotheses 5 and 6) (N=84)

	Satisfaction with BDS delivery	Professionals source of BDS	MFI- related BDS source	Technical related BDS	Group mode of BDS delivery	Relationship with BDS agents	Owner-manager's education	Competence of BDS agents
Professional source of BDS	.087							
MFIs related BDS source	.380***	.174						
Technical related BDS	-.472***	.050	-.285**					
Group mode of BDS delivery	.027	.185	.263**	-.078				
Relationship with BDS agents	.026	-.071	.009	-.044	.056			
Owner-managers' education	.203	-.130	-.087	-.132	-.032	.072		
Competence of BDS agents	-.083	.028	.117	-.007	.103	.276**	.097	
Performance score	.131	-.152	.151	-.099	-.142	.233**	.118	.024

*** significant $p < 0.000$; ** significant $p < 0.05$

Legend: professional source of BDS used (1/0) = if professional; MFI related source of BDS used (1/0) = if MFI related; technical type BDS received (1/0) = if technical; group mode of BDS delivery (1/0) = if group; BDS agents' competence (1/0) = if competent; good relations with BDS agents (1/0) = if yes; owner managers' education (1/0) = if tertiary and above.

Regression results for Hypothesis 5

The logistic regression undertaken in regard to Hypothesis 5 is algebraically expressed as follows;

$$\text{Logit}(p) = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7$$

Where:

Symbol	Variable name	Variable label (see section 7.4.1. for coding)
$\text{Logit}(p)$		Probability of satisfaction with BDS
X_1	BDSSrPrf	Professional source of BDS
X_2	BDSSrMFI	MFI affiliated source of BDS
X_3	BDSTpTec	Technical nature of BDS
X_4	GrpBDSdel	Group BDS delivery mode
X_5	RelBDSag	Relationship with BDS agents
X_6	EdcOwRec	Owner manager's education level
X_7	CompBDSag	Competence of BDS agency staff)

Justification for and measurement descriptions of both the dependent and independent variables used in this test appear in section 3.3.3 in chapter three and section 7.4.1 of this chapter.

Logistic regression is performed to examine the influence of a number of factors described previously (see section 7.4.1 in this chapter) on the likelihood that participant MSE owner-managers report satisfaction with the currently supplied BDS. The model contains seven independent variables as outlined in section 7.4.1 above. The model with all predictors is statistically significant $\chi^2 = 33.91$ (7, $N=84$), $p < 0.001$, which indicates that the model is capable of distinguishing between participant MSE owner-managers who are satisfied and those who are not satisfied with currently supplied BDS. The range of variance in BDS satisfaction explained by the model is between 33.2 per cent (Cox & Snell R Square) and 44.4 per cent (Nagelkerke R Square). Additionally the model correctly classifies 76.2 per cent of the cases.

Table 35c shows that only three of the predictors make a significant contribution towards increased chances of participants being satisfied with BDS, namely: participant MSE owner-managers' level of education, MFI-affiliated source of BDS, and BDS of a technical nature. The strongest predictor of reporting satisfaction with BDS is participant MSE owner-managers' source of BDS being linked to an MFI, recording an odds ratio of 5.90. This implies that participant MSE owner-managers whose source of BDS is MFI-affiliated are almost six times more likely to report satisfaction with

currently supplied BDS than participant MSE owner-managers whose BDS source is independent of MFIs, controlling for other factors. This result however is inconsistent with previous observations (see section 6.4.2) where BDS supplied by MFIs does not appear to closely match the needs of MSE owner managers. Therefore in Bourdieu's words, MSE owner managers' reports of satisfaction with MFI supplied BDS would seemingly amount to an act of symbolic violence (Bourdieu, 1977), against MSE owner managers, committed by MFIs. The second strongest predictor of satisfaction with BDS is owner-managers' education (odds ratio = 3.61). This means that participant MSE owner-managers with tertiary level education and above are nearly four times more likely to report satisfaction with the current BDS than their counterparts with below tertiary level education. With regard to technical type of BDS, the respective odds ratio is 0.16, which is less than 1. This implies that participant MSE owner-managers who received BDS of a technical nature are 0.16 times less likely to report satisfaction with current BDS than participant MSE owner-managers who received BDS of a general (non technical) nature.

Table 35c: Hypothesis 5 - Logistic regression predicting the likelihood of reporting satisfaction with BDS (N=84)

	B	S.E.	Wald	df	p value	Odds ratio
BDSSrPrf	.504	.582	750	1	.386	1.66
BDSSrMFI	1.775	.621	8.178	1	.004	5.90
BDSTpTec	-1.863	.561	11.028	1	.001	.16
RelBDSag	.369	.845	.191	1	.662	1.45
GrpBDSdel	-.512	.588	.759	1	.384	.60
EdcOwRec	1.285	.631	4.138	1	.042	3.61
CompBDSag	-.870	.588	2.186	1	.139	.42
(Constant)	-.580	1.014	.327	1	.567	.56

Legend:

BDSSrPrf (1/0) = Professional BDS source; BDSSrMFI (1/0) = MFI linked BDS source; BDSTpTec (1/0) = BDS of technical nature; RelBDSag (1/0) = Relationship with BDS agent; GrpBDSdel (1/0) = Group based BDS delivery; EdcOwRec (1/0) = Owner manager's education level; CompBDSag (1/0) = Competence of BDS agency's staff.

With an observed model Chi-square value of 33.91 (df, 7) at $p < 0.001$, against a Chi-square distribution value of 14.067 (df, 7) at $p = 0.05$, the null hypothesis, that effective delivery of BDS does not significantly influence participant MSE owner-managers' BDS satisfaction rating, is rejected. Consequently the alternative hypothesis that

participant MSE owner managers in receipt of more effectively delivered BDS are likely to be satisfied with currently supplied BDS compared to participant MSE owner managers in receipt of less effectively delivered BDS, holds and supports Hypothesis 5.

In view of the foregoing finding, that effective delivery of BDS is likely to lead to eventual client satisfaction with supplied BDS, it is important to examine whether currently supplied BDS meets the needs and expectations of the participant MSE owner-managers. This is the issue addressed next.

7.4.3 Results of Testing Hypothesis 6

In this section the test undertaken seeks to determine whether participant MSE owner-managers who are satisfied with currently supplied BDS are likely to report higher self-rated performance scores on their businesses compared to participant MSE owner managers who are not satisfied with currently supplied BDS. The objective of Hypothesis 6 is to examine the strategic fit between currently supplied BDS and the self-expressed needs of participant MSE owner-managers. It is likely that in a situation where supplied BDS is perceived to serve client's needs, then the client is more likely to be satisfied with it. It could also be argued that participant MSE owner-managers who are satisfied with the BDS currently supplied, have possibly gained skill from it and as such are more likely to report higher self-rated performance scores for their business, controlling for other factors (see further discussion in section 3.3.3 in chapter three).

Against the premise above, Hypothesis 6 is tested through a one-way between-groups analysis of variance (ANOVA) with planned comparisons. The comparisons are made on the self-rated performance scores (for details on performance measurement and coding of variables see section 7.2.1) between participant MSE owner-managers who state to be satisfied with their current BDS and those who are not satisfied. In descriptive terms, of the 84 participant MSE owner-managers who use BDS, there are 45 (54 per cent) who are satisfied with the current BDS against 39 (46 per cent) who are not satisfied (see Table 36a). Table 36a further shows that participant MSE owner-managers who are satisfied with their current BDS are likely to report higher self-rated performance scores for their businesses ($\bar{x}=1.76$, $\sigma=2.55$, $sk=-1.05$) than their

counterparts who are not satisfied ($\bar{x}$ =0.96, σ =3.47, sk =-0.67). The difference is however not statistically significant (t-test =-1.17, p =0.245).

Table 36a: Descriptive Statistics for variables included in testing Hypothesis 6

Performance score		(N=84)	Min.	Max.	Mean	Std. Deviation	Skewness
Satisfaction with BDS	not satisfied	39 (46%)	-6.82	6.03	.96	3.47	-.67
	satisfied	45 (54%)	-6.03	6.03	1.76	2.55	-1.05

Test results for Hypothesis 6

Results of Pearson's correlations (see Table 35b) reveal insignificant low correlation between participant MSE owner-managers' likelihood of satisfaction with current BDS and self-rated performance scores of their businesses (r =0.131, p =0.234). The following Table, Table 36b, presents results of a one-way between-groups ANOVA exploring the likely impact of participant MSE owner-managers' satisfaction with current BDS on the self-rated performance scores of their businesses. The table shows that overall there is no statistically significant difference at the $p < 0.05$ level in self-rated performance scores, between participant MSE owner-managers who are satisfied with current BDS and those who are not satisfied (t-test = 1.174, p =0.245). The corresponding F value for the observed t is $F(1, 82) = 1.38$, p =0.245. The resulting eta squared value is 0.02 which according to Cohen (1988) is considered a small effect size, which further confirms the insignificant result in Table 36b.

Table 36b: Hypothesis 6 – results for one-way between-groups ANOVA

		Contrast	Value of Contrast	Std. Error	t	df	Sig. (2-tailed)
Performance Score	Assume equal variances	1	.79	.66	1.199	82	.234
	Does not assume equal variances	1	.79	.67	1.174	68.90	.245

Given an observed value of $F(1, 82) = 1.38$, against an F distribution Table value of 3.92 (1, 82), the observed F does not exceed the critical value. In light of this scenario, the null Hypothesis that, participant MSE owner-managers' satisfaction with current BDS is not related to self-rated performance scores of their businesses cannot be rejected. Therefore the alternative Hypothesis that, participant MSE owner managers who are satisfied with currently supplied BDS are likely to report higher self-rated performance scores on their businesses compared to participant MSE owner managers who are not satisfied with currently supplied BDS, does not hold.

These results may have two implications; first 'satisfaction' with current BDS may not be a good estimate for fitness between supplied BDS and client needs, secondly, if there is fitness between supplied BDS and client needs, then it could be such a fit does not necessarily result in an improvement in self-rated performance. In view of the conclusions for Hypothesis 5 above, the latter seems to be a more probable conjecture. In general however, the results of Hypothesis 6 appear to be consistent with results previous of univariate analysis presented in section 6.4.2 of this chapter. In this case it was noted that apparently there is minimal convergence between the type of BDS offered (especially by MFIs, which are the main source of BDS among sample MSEs) and the BDS needs of MSEs.

7.5 Implications of test results for Hypotheses dealing with effectiveness of BDS delivery

The last two Hypotheses, Hypotheses 5 and 6, are devoted to evaluating the effectiveness of BDS delivery to participant MSE owner-managers. Although test results support Hypothesis 5, this is not the case with Hypothesis 6. With regard to Hypothesis 5, results of the logistic regression analysis reveal that participant MSE owner-managers are likely to be satisfied with the delivery of current BDS if its source is perceived to be of a professional nature and/or affiliated to an MFI. The professional sources of BDS commonly used by participant MSE owner-managers include accountancy firms, audit, and general management consulting firms.

Given the informality of personal sources of BDS (i.e. family, friends, business colleagues, and acquaintances) its quality is in no way comparable to that of professional sources. Satisfaction with BDS, the source of which is linked to an MFI

(compared to independently sourced BDS) implies that integrating BDS with credit appears to improve the effectiveness of BDS delivery. Additionally, this strategy makes the cost of BDS ‘invisible’ and hence more likely to be perceived as affordable.

Further, integrating BDS and credit not only increases the contact hours but also is likely to raise the commitment level of the BDS clients and their agents. In addition, test results for Hypothesis 5 show that currently participant MSE owner-managers are unlikely to be satisfied ($\beta = -1.86$, $p < .001$) if in receipt of BDS of a technical nature (see Table 35c). This means that currently, at least for the sample owner-managers who took part in this study, technical BDS does not appear to meet their needs. Compared to non-technical (general management) BDS, most agents are unlikely to be competent enough to deliver technical type BDS, at least in the context examined here. For example, in some cases it is unlikely that agency staff may possess the technical knowledge, skill and experience needed to advise their clients on layout, operations, and process design matters.

According to test results for Hypothesis 5, participant MSE owner-managers with tertiary and above level education are more likely to be satisfied with current BDS than otherwise. It could be argued that participant MSE owner-managers with relatively higher education are in a better position to discern their advisory needs, choose an appropriate BDS provider and provide feedback as to whether or not their expectations are being met. Moreover participants with tertiary level education are more likely to appreciate aspects of the advice provided by their BDS agents and implement it more effectively.

Regarding the mode of BDS delivery, the use of groups seems to be unsatisfactory (see Table 35c). Although MFIs and their nominated BDS agents would prefer group BDS delivery for economic reasons, participant MSE owner-managers are more likely to be satisfied with one-to-one BDS delivery. The group mode of BDS delivery may fail to tap into the intrinsic needs of individual businesses and their owner-managers. Moreover as earlier noted (see Table 28), participant MSE owner-managers may be less willing to share business information for fear of breaching privacy.

The fact that the test results do not support Hypothesis 6 can be interpreted as showing that the quality of currently supplied BDS does not, on average, meet the needs of participant MSE owner-managers, a finding previously reported by Matlay (2004). As noted earlier in this section, this is especially the case with BDS needs of a technical nature. Additionally, as discussed previously (see section 6.4.2) in the case of MFI supplied BDS, participant MSE owner-managers do not choose the type of BDS they receive expressly. Additionally the BDS tends to be of a non-technical (general management) nature. Having explored the implications of the hypotheses test results, the next section provides concluding remarks for this chapter.

7.6 Conclusion

This chapter uses a multivariate approach to testing the six hypotheses put forward in chapter three, consistent with the main objective of this study, which is to evaluate the association of microcredit and BDS provision in the perceived performance of micro and small enterprises.

Hypotheses 1 through 4 examine whether receipt of BDS and/or microcredit are associated with self-rated business performance scores made by participant MSE owner-managers. Ordinary least squares regression is used and results support all four Hypotheses. These results are consistent with the proposition that participant MSE owner-managers who use either or both BDS and microcredit are likely to report higher self-rated performance scores for their businesses compared to participant MSE owner-managers who use neither BDS nor microcredit. In addition, participant MSE owner-managers who use BDS alone are likely to report higher self-rated performance scores for their businesses than their counterparts who use microcredit singly. Overall there is evidence of complementary benefits accruing from use of BDS and microcredit jointly.

The other two Hypotheses posited in chapter three, Hypothesis 5 and 6, focus on testing the perceived effectiveness of BDS delivery and the fit between currently supplied BDS and participant MSE owner-managers' BDS needs respectively. A logistic regression technique is used to test Hypothesis 5 while Hypothesis 6 is tested using a one-way between-groups ANOVA with planned comparisons. The results support Hypothesis 5. That is, participant MSE owner-managers are likely to register satisfaction with

currently supplied BDS if they perceive its delivery to be effective. However results of the ANOVA test do not support Hypothesis 6. This implies that there is an apparent discrepancy between currently supplied BDS and participant MSE owner-managers' needs in relation to BDS. This result is consistent with the univariate analysis reported previously in chapter six. In summary, the results of Hypothesis testing reported in this chapter support the underlying premise of this study. The next chapter offers concluding remarks, limitations, and suggestions for further research.

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 singly. The implication of this result is that, neo-institutionally, of the two competing logics in microfinancing, social logic driven microfinance is a better approach compared to a commercial approach. If microfinancing is viewed through an anti-poverty lens, then this implication is heightened. Further, in Bourdieu's words 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 access to only cultural capital (BDS) compared to their counterparts with access to economic capital (microcredit) only, 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.

8.0 Chapter Eight: Conclusion, Limitations and Further Research

8.1 Introduction

This chapter completes the thesis. Primarily, the chapter offers a conclusion to the study seeking to investigate whether there is a perceived complementary benefit associated with linking microcredit and business development service (BDS) provision to micro and small enterprises (MSEs). This chapter also discusses, in summary, the study's findings consistent with its research objectives and questions raised in chapter one and its underpinning conceptual frameworks discussed in chapter three. In addition, the study's contribution, limitations and suggestions for further research are presented. The chapter begins with a summary which synthesises the discussion and arguments presented in the preceding chapters.

8.2 Summary

This thesis set out to assess the perceived significance of microcredit and the enjoined provision of BDS as instruments for promoting the development of MSEs in a developing country. This relationship is examined in the context of the current worldwide poverty reduction discourse. The fundamental question examined is whether inclusion of BDS in a microfinance programme is likely to lead to higher owner-managers' self-assessed performance of their enterprises compared to the situation where BDS is not provided.

Discussion of the motivation for examining and the significance of this inquiry pervade most of chapter one. According to the latest human development report (UNDP, 2009b) Kenya, the context of study, ranks 148th among 182 countries. With a national population of close to 39 million people and more than half of them (56 per cent) living on less than a dollar a day, MSEs have become a livelihood pattern for many Kenyans. The chapter notes that the development agenda behind current poverty alleviation campaigns, principal among them the United Nations' target to halve the world's poverty levels by 2015 (United Nations, 2009), promotes the creation of MSEs for self-employment by the poor and hence development of their economic capital. A similar commitment is shared by signatory institutions to the microcredit Summit Campaign, which aims to reach 175 million of the poorest families, especially women, with microcredit and related business services (Daley-Harris, 2009). The chapter observes

that, whereas progress has been made in building microfinance institutions as well as reaching MSE owner-managers with constituent services, there are some concerns. Firstly, there is a concern as to whether the poor are being reached (see Morduch, 1998, Lont and Hospes, 2004) and hence as to whether economic capital is really being developed in the category of most need. Secondly, and more importantly in the context of this thesis, it is worth questioning whether the adoption of the seemingly popular minimalist approach, embracing mainly a commercial logic to microfinancing, come at the expense of providing BDS to MSE owner-managers (see Boter, 2005). While the chapter outlines the study's research questions, it also highlights its key findings and contribution.

Attention then turns to discussing theory and the related literature in chapters two and three. Specifically, chapter two examines the subject context of the thesis, offering not only an exposition on the microfinance industry and MSE development in Kenya, but also a review of related literature. In this regard the chapter observes that; although the MSE sector is a significant contributor to Kenya's economy, its growth and development is constrained by several factors including lack of access to affordable credit and quality BDS, among others. Further, results of previous studies on the impact of BDS on MSE development (most of which are atheoretical and conducted in developed countries), appear equivocal (Storey, 2004). Chapter three situates the review of literature pertaining to the significance of microfinance and BDS to the performance of MSEs within a critical relational framework informed by two conceptions – Pierre Bourdieu's 'theory of practice' (Bourdieu, 1977) and neo-institutionalism (see Scott, 2008). It is argued that practice variation in microfinancing is notably influenced by two contending logics – social and commercial.

It is further noted that contestations for equitable exchanges and valuations between the various strains of capital; economic, social, and cultural in particular, are likely to be responsible for the 'symbolic violence' and position-taking behaviour that currently engulfs the practice of microfinance. The chapter develops a conceptual model that could help in understanding the intrigues that characterise microfinance practice to date. Future researchers in this field may find the model useful in conceptualising the field of microfinance and its practices in a holistic manner. On the basis of the insights provided by the above, chapter three concludes by positing hypotheses for testing.

From a functional perspective, chapters four and five focus on discussions relating to justification for the choice of study design and statistical description of the study's sample profile respectively. Specifically, in chapter four it is observed that recent (since mid 1990s) impact studies on microfinancing employ different designs that can be classified into; scientific, behavioural, and participatory action learning methods (Hulme, 2000). Whereas the scientific method is quantitatively oriented, the two other approaches take a qualitative character, adopt a longitudinal framework, and by their very nature require involvement of multiple parties to be successful. While a longitudinal approach could be used, it is arguably inappropriate for this study for the main reason that the design would demand a before-after experimental setting, which is likely to introduce several validity threats, for example testing, instrumentation, maturation, and mortality. Further any involvement of multiple parties (as is common in behavioural and participatory learning and action designs), runs the risk of not only breeding conflict of interest between collaborators but also breaching the bounds of anonymity, one of the key requirements for University Human Ethics Research Committee approval for this study. In light of the reasons above, and in view of the study's focus on practice variation, the cross-sectional approach adopted by this study is arguably the most appropriate.

By design therefore this inquiry is scientific in nature. The study uses a Q-Squared approach, triangulating quantitative data gathered from structured interviews with 160 haphazardly sampled participant MSE owner-managers with results from qualitative interviews carried out with 19 purposively selected representatives of MFIs, BDS agencies and independent researchers with an interest in the MSE sector. Operationally the study takes on a two by two quasi-experimental design (see Shadish, Cook, and Campbell, 2002), with participant MSE owner-managers in receipt of neither microcredit nor BDS constituting the control group.

The chapter notes that debate on the achievements of microfinance rages (Armendariz and Morduch, 2010). While a section of studies argue that microfinance leads to beneficial economic and social impacts (e.g. Remenyi, 1991; Otero and Rhyne, 1994; Schuler et al., 1997;) yet another set suggests otherwise (e.g. Buckley, 1997; Montgomery, 1996; Rogaly, 1996 and Wood and Sharif, 1997). With such a scenario, further analysis of the impact of microfinance operations on the livelihoods of the poor

remains an important subject to academics, development researchers in general, and in particular, to poverty alleviation policy-makers.

Further the chapter observes that although some previous impact assessment efforts employ a quasi-experimental design, the focus of prior studies has been mainly at either the institutional or microfinance program level (e.g. Mustafa et. al., 1996; Hashemi et. al., 1996; Pitt and Khandker, 1998; Coleman, 1999; Dunn and Aberckle, 2001). It is worth noting that this study assesses the impact of access to microcredit and/or BDS at the microenterprise level. It is argued that the microenterprise is the basic unit for economic empowerment of the poor in their quest to fight poverty. Institutional or programme level impact assessments are likely to generate an aggregate picture of microfinancing, with minimal detail of how possible access to BDS or microcredit can influence the livelihood patterns of the poor. While targeting the MSE level as the unit of analysis rather than programme outcomes, this study integrates the notions of impact attribution and improving microfinance interventions, aspects emphasised by Hulme (2000). Further, it also allows assessment directly and specifically of the impact of BDS and microcredit on the user and from a user's perspective.

Chapter five describes key characteristics of the study's sample. It is noted that participant profile information is critical firstly in achieving the purpose of the study and, more importantly, in making meaningful comparisons between users and non-users of both microcredit and BDS with regard to self-rated performance of their MSEs. Demographically, it is explained in the chapter that the study's sample constitutes more male participants than females. Most participant MSE owner-managers are aged below 40 years which implies that, at least in Kenya, the MSE sector is dominated by young adults, the majority of whom are married. Slightly more than 60 per cent of the participant MSE owner-managers have tertiary level education. Of these, four in every six cases have attained college level education. Regardless, only one third of participant MSE owner-managers report having formal business training prior to venturing into business. However, slightly more than two thirds of them had on-the- job experience, either by directly running their own businesses or, in some cases, through a business-family background. It is important to note that of the demographic features of the sample examined, in the main the education level of participant MSE owner-managers is significantly associated with the perceived performance of their enterprises, as is their

gender and age. These attributes appear to wield significant influence on participants' habitus.

In addition to the social demographics, the chapter notes that the average experience in business among participant MSE owner-managers is six years, with the majority of them stating to have been in business for less than ten years. Further, slightly more than two thirds of the participants' businesses have only a single branch and employ between three to four staff. Across all four categories of participating MSEs and consistent with previous research (see Liedholm, 2002, Richardson et al., 2004, ILO, 2008), trade (in a diverse collection of products) is the most common business activity. As pertains to income levels, on average most participant MSE owner-managers have a gross monthly income ranging between KES 30,000 and KES 40,000 (AUD \$600 - 800). In general the chapter reveals significant differences in income between users and non-users of microcredit and/or BDS. However the modest nature of these incomes implies that some of the participants are engaged in business for survival purposes.

In sum the economic profile of participant MSE owner-managers who do not use either microcredit or BDS differs significantly from that of their counterparts in the other three categories – participant MSE owner-managers who use microcredit and BDS jointly or singly. This means that, as proposed, participant MSE owner-managers who do not use either microcredit or BDS serve as an effective control group when evaluating the correlation of microcredit and BDS with the self-rated performance of participants' enterprises. Discussion of the results of hypotheses tests from a univariate point of view appear in chapter six, and from a multivariate paradigm in chapter seven. A discussion of the key findings guided by this study's main research questions and hypotheses follows.

8.2.1 Summary of findings

In general across all four MSE owner-manager participant categories, businesses display similar characteristics regardless of whether their owner-managers use microcredit or BDS jointly or singly. The findings reveal that the most frequent participant business activity is trade related, involving resale of a collection of goods, and operates as a sole proprietorship rather than on a limited liability company basis. This result is consistent with previous studies in this respect (ILO, 2008, Atieno,

2001b). Although a significant proportion of participants' businesses are perceived as established (i.e. been in operation for more than three years), most have been in operation for less than ten years. This is an important attribute in an environment where it appears few new ventures make it to their second birthday.

Further it is revealed that the need to either raise additional working capital, seize an emerging business opportunity, or even harness for personal consumption, among other reasons, has lead MSE owner-managers to seek credit from various sources. MFIs are the most common source of credit among MSE owner-managers, representing almost one third (29 per cent) of the responses. This is followed by personal savings (21 per cent), while commercial banks come third with 18 per cent. Given the inseparability of the owner-manager and the enterprise in sole proprietorships, it is not surprising that some of the participants cite personal issues (e.g. household expenses, medical bills, and school fees) as reasons for taking loans. However it is likely that these personal reasons for borrowing are not expressly revealed when making loan applications. Besides, the findings reveal that MFI representatives do not seem concerned with either fungibility of microcredit or possible subversive practices among borrowers.

Significance of microcredit provision to micro and small enterprises

External credit sources appear to extract unusually high interest rates from borrowers, besides applying stringent qualifying rules. Results show that, on average, most participant MSE owner-managers report paying interest rates higher than 18 per cent annually at a time when the Kenyan Government's base lending rate was 8.7 per cent. Notwithstanding the high rates, participant MSE owner-managers state that most sources of credit, especially MFIs, require applicants to be part of a group, mobilise savings, organise chattels, and offer some form of tangible collateral in order to access credit. Similar observations have been made previously (Akoten, 2007b). During an interview, one MFI representative stated: "...collateral varies, it could be chattels, cars, house, shares...but you find that the loans have to be fully covered." As reflected in discussion of the relevant literature in chapter two, demand for collateral is one of the factors that make commercial bank loans inaccessible to MSE owner-managers (see Akoten, 2007b) . Initially as a form of banking, microfinance was intended to be collateral free, leveraging on social capital to mitigate against the risk of loan default. In

essence microfinance was specifically designed to serve the needs of the MSE sector. The results from this study appear to be in stark contrast to this intention.

The situation is compounded by the terms and conditions associated with microcredit delivery. For example, results show that microcredit is short term, in most cases extending only to a maximum of 12 months, with weekly repayments. Additionally the eligibility criteria is broad, comprising factors ranging from individual applicants' personality attributes, enterprises' cash flow streams (as per the transactional history), to group cohesion and management, among others. A significant proportion of the participants agree that credit terms, especially interest rates and the weekly repayment, constrain their business operations. Similar views are expressed during interviews with independent researchers who point out that even though microcredit is increasingly becoming accessible to MSEs, it has helped only to sustain some people in their businesses. This is so because the current terms and conditions do not encourage growth of the sector. In general however, most participant MSE owner-managers hold a perception that their businesses have improved in some way as a result of access to credit, though opinions vary. Among the improvements cited are perceived increases in profits, increases in staff numbers, increases in either savings or assets, and reduction in debt.

With regard to the likelihood of continuing to borrow, results show that participant MSE owner-managers whose main source of credit is MFI-linked are almost four times more likely to continue borrowing than participant MSE owner-managers whose loan source is independent of a MFI, other factors held constant. Further, participant MSE owner-managers who currently pay higher interest rates on loans are 0.46 times less likely to continue borrowing than participant MSE owner-managers who pay lower interest rates. Moreover with an odds ratio of 0.378, participant MSE owner managers in receipt of collateral-based loans are less likely to continue borrowing compared to participant MSE owner-managers who are in receipt of collateral free loans. Highlights of the findings in relation to the perceived benefits of BDS to MSE growth are presented next.

Significance of business development services to micro and small enterprises

Of the various sources of advisory services, the use of acquaintances (family, friends, and business colleagues components of social capital) is commonly reported by most participant MSE owner-managers. The second most commonly used source of business advisory services is microfinance schemes, followed by accountancy and audit firms. Private consultants and academics rank poorly as potential sources of business advisory services among MSE owner-managers. This does not come as a surprise since academics are noted to be unattractive as a source of business advice among MSE owner-managers (see Berry and Sweeting, 2006). Although popular as a source of business advisory services, acquaintances are unlikely to give quality business advice. Moreover given the social connections the objectivity of any such business advice is questionable.

Results further show that among the various aspects of cultural capital, i.e. business decision areas, advice on accountancy is frequently needed with more than half of the participant MSE owner-managers identifying it as their top priority issue. Other areas such as general business planning and financial planning respectively are among the top three (of eleven) decision areas for which MSE owner-managers often need assistance from BDS providers. From the supply side however; especially for MFI-linked BDS, a majority of the participant MSE owner-managers identify management issues, either in the form of general advice or training, as the main advisory service received followed by training in the management of group dynamics, and moral support. Though cited, technical support in the form of facilitation on sourcing of materials, product- process development, and market information liaison, are exceptional cases. It is worth noting that results reveal a discrepancy between MSE owner-managers' BDS needs and what the market (especially MFI-based BDS providers) currently supplies. This result is consistent with the findings from previous studies (Jayawarna et al., 2007, Matlay, 2004). Whereas accounting and marketing are reported to be decision areas where MSE owner-managers often require advice, general management counselling and moral support are the most common forms of advisory services that participant MSE owner-managers report to be receiving, mostly from the MFI-linked BDS suppliers. Given this state of affairs it is unlikely that MSE owner-managers are provided opportunity to choose the BDS being delivered to them or align it with their need.

With regard to the cost of BDS, although most participant MSE owner-managers cite it as affordable, results further reveal that in most cases they do not pay for it directly. This is partly because it is common practice among MFIs to include BDS fees in the standard charges for microcredit. In some other cases, MSE owner-managers state that BDS charges are subsidised by third party organisations, for example NGOs with an interest in supporting MSE development. In yet other instances, farmers' associations and investment groups foot the cost of BDS as a way of promoting members' welfare.

Results indicate that BDS is commonly delivered by way of business site visits, group sessions, visits to agents' offices, and to a lesser extent through contracted one-off assignments. Among other BDS delivery modes reported farmer's workshops, apprenticeships, mentorships, and one-on-one hands-on coaching are included. The group mode of BDS delivery, though cost effective, is favoured by MFIs consistent with their desire to nurture social capital, a critical factor in marketing their credit services. From a marketing perspective and from the BDS agents' stand point, one could argue that agents' visits to MSE owner-managers' (clients') business premises are probably a more effective way of delivering BDS compared to the other options described above. Through such a strategy the BDS agent is able to not only maintain close contact with the client, but also to keep abreast of developments in the enterprise.

According to the study's results participant MSE owner-managers cite skill development as the main benefit accruing from their use of BDS. Other benefits reported include; access to professional input in decision making, technical facilitation, and information linkages. In sum, from a users' perspective, given the fact that most of the participants cite skill development as their priority benefit of BDS, it is likely that MSE owner-managers would be more interested in BDS that promotes development of business management skills (Faoite et al., 2004). The benefits reported here come at a cost however. Some participants state fears of a breach of privacy, leakage of business information, misleading advice, and creation of a dependency syndrome as drawbacks of BDS provision. Among the shortcomings of BDS, leakage of information is noted as the most serious concern among participant MSE owner-managers. Summary findings on the association of access to microcredit and BDS with the perceived performance MSEs follows.

Impact of microcredit and BDS on MSE performance

From a multivariate perspective and in the context of MSEs' performance, results show that other factors notwithstanding, participant MSE owner-managers in receipt of both microcredit and BDS hold better perceptions about the performance of their businesses than participant MSE owner-managers who do not use either microcredit or BDS. In addition the study's findings reveal that participant MSE owner-managers who use microcredit and BDS jointly report higher self-rated performance scores for their businesses compared to their counterparts who use microcredit and BDS singly. Further, results reflect that compared with participant MSE owner-managers who use either BDS or microcredit, participant MSE owner-managers who do not use either microcredit or BDS report lower self-rated performance for their businesses.

Consequently Hypotheses 1 through 4 of this thesis; that MSE owner-managers in receipt of both microcredit and BDS are likely to report higher self-rated performance of their enterprises compared to their counterparts in receipt of either or neither microcredit or BDS, and that enterprises belonging to MSE owner-managers who use either microcredit or BDS are likely to record higher self-rated performance than those in receipt of neither microcredit nor BDS, hold. From neo-institutional and Bourdieu's conceptions, it appears that MSE owner managers in receipt of both cultural and economic forms of capital (beneficiaries of a social logic driven microfinance) accrue a synergistic value for the performance of their enterprises. This is unlike their counterparts (beneficiaries of a commercially oriented microfinance) who only have access to economic capital.

It is further revealed that MSE owner-managers' habitus, informed by levels of education, gender, age, and the extent of establishment of their business, are among other factors associated with a significant differential in self-rated performance of participant enterprises. These results reveal that young adult women with a tertiary and above level education, whose businesses have been operational for more than three years, record higher self-rated performance for their businesses than their counterparts. This is despite the fact that (as reported in section 5.2) women form only 36.2 per cent of the study's sample. However, this thesis does not find any significant differences in MSE owner-managers' self-rated performance as influenced by either the type of business activity undertaken or owner-manager's affiliation to a business family

background. Next are summarised the highlights of results pertaining to MSE owner-managers' perceived satisfaction with current BDS.

MSE owner-managers' BDS satisfaction ratings

With regard to satisfaction with delivery of BDS, results show that it is highly influenced by participant MSE owner-managers' education, technical nature of BDS, and BDS agents' affiliation to an MFI. It is revealed that participant MSE owner-managers whose source of BDS is MFI-affiliated are almost six times more likely to report satisfaction with currently supplied BDS than if the BDS source is independent of MFIs, all other factors held constant. Further, the findings show that participant MSE owner-managers with tertiary level education and above are nearly four times more likely to report satisfaction with the current BDS than their counterparts with below tertiary level education. Participant MSE owner-managers who received BDS of a technical nature are less likely to report satisfaction with current BDS than those in receipt of BDS of a general (non-technical) nature. Contrary to popular opinion, MSE owner-managers' satisfaction with BDS delivery is not found to be significantly influenced by good relations with and/or competence of agency staff, group mode of delivery, or the source's perceived level of professionalism. Therefore the hypothesis that participant MSE owner-managers in receipt of more effectively delivered BDS are likely to be satisfied with currently supplied BDS compared to participant MSE owner managers in receipt of less effectively delivered BDS holds and supports Hypothesis 5.

However, the study does not find significant differences in self-rated performance scores between participant MSE owner-managers who are satisfied with current BDS and those who are not satisfied. In other words in respect of Hypothesis 6, that participant MSE owner managers who are satisfied with currently supplied BDS are likely to report higher self-rated performance scores on their businesses compared to participant MSE owner managers who are not satisfied with currently supplied BDS, is not supported. This means that either satisfaction with current BDS is not a good estimator for congruence between supplied BDS and client needs or, if such a fit exists, then it could be that it does not necessarily leverage self-rated performance scores on participant enterprises. In general however, test results for Hypothesis 6 are reasonably consistent with results from the univariate analysis noted earlier in chapter six. In short, whereas there are concerns about some terms and conditions surrounding delivery of

both microcredit and BDS, in general from either a univariate or multivariate standpoint, the findings show that participant MSE owner-managers feel that access to microcredit and BDS has a positive impact on their enterprises. In summary the results of hypothesis testing reported in this study support the premise of this thesis. The findings highlighted above are part of this study's contribution to literature and knowledge on the practice of microfinancing. A synopsis of this contribution follows.

8.3 Contribution

Broadly this thesis offers theoretical and practical contributions, as well as contributions to regulatory policy on microfinancing as practiced in developing countries. Informed by Pierre Bourdieu's critical theory on practice, and neo-institutionalism, the study's exposition on the contending logics, capital, and position-taking behaviour in the field of microfinance is original since most of the closely related previous studies are atheoretical (e.g. Pitt and Khandker, 1998, Snodgrass and Sebstad, 2002, Khandker, 2005). Against the same theoretical framework the study develops a conceptual framework that could be useful to other researchers with an interest in the practice of microfinance.

Although most previous studies on the relationship between microfinance and poverty alleviation utilise a survey methodology (Sharma and Buchenrieder, 2002, Habib, 2008) with a focus on institutions or microfinance programmes (see Goldberg, 2005), this thesis adopts a user's perspective, employing a 'Q-Squared' methodology to elicit the views and experiences of MSE owner-managers while seeking to quantify costs and benefits associated with access to BDS and microcredit, jointly and severally, in the context of a developing economy. Whereas individual participants and/or their households are commonly used in locating the effects of microfinancing on the poor (see Pitt and Khandker, 1998, Khalily, 2004), in this thesis the unit of assessment is the micro and small enterprise, the main form of economic activity that poor people use in an attempt to improve their economic capital base and livelihoods.

From a practical perspective, whereas empirical literature portrays provision of BDS to MSEs as a cost burden worth eliminating, especially by MFIs seeking financial stability (Sievers and Vandenberg, 2007), results from this study dispel such claims. Firstly, contrary to the views held by Boter (2005), the findings here show that there is demand

for BDS among MSEs in developing countries, whether access to BDS is a pre-requisite for microcredit or not. Secondly and more importantly, hypotheses test results reported here quantify the perceived synergistic value of the use of BDS and microcredit jointly in promoting the performance of MSEs, an aspect previously not researched. From a neo-institutional view, with current practice inclined towards a more commercial and minimalist approach to microfinancing (see Schmidt, 2010), these findings could go a long way to inform debate on the demand for and necessity of BDS provision to MSEs. This is especially so for those with potential for growth, contextualised in the Poverty Reduction Strategy Paper (PRSP) policy framework, within developing economies. Notwithstanding the fact that the findings may serve as a guide towards the search for a better fit between the microfinance mission and practices, they could be instrumental in enabling policy makers and practitioners to develop a more efficient and effective regulatory policy framework for the delivery of pro-growth microcredit and BDS.

8.4 Implications

The aim of carrying out hypotheses tests, the results of which were summarised in the previous section (8.2), is to assess the perceived significance of BDS and microcredit to the performance of micro and small enterprises. The test results of performance related Hypotheses 1 through 4 show that, as expected, businesses that belong to participant MSE owner-managers in receipt of neither BDS nor microcredit are worse off in terms of self-rated performance than those in receipt of one or other or both of these services. Further, participant MSE owner-managers in joint use of microcredit and BDS report higher self performance ratings of their enterprises than MSE owner-managers who use the two services singly.

These results have several implications; firstly the poorer self-scored performance ratings of MSE owner-managers who use neither microcredit nor BDS may be due partly to the fact that their businesses are newly established, as the univariate analysis in sections 5.2 and 5.3 shows. Further this category of participants would appear to lack certain aspects of cultural capital, especially business management skills, partly due to their low levels of education and lack of access to necessary resources. Secondly businesses belonging to owner-managers with a combined access to BDS and microcredit (cultural and economic capital respectively) enjoy a complementary value

addition over and above the benefits attributable to using BDS and microcredit separately.

Thirdly given the fact that MSE owner-managers cite skill development, an indicator of enhanced cultural capital, as the key benefit accruing from use of BDS, it is possible that access to BDS helps them acquire requisite business management skills that serve to inform their habitus and consequently improve their decision making. For example, new skills may enable MSE owner-managers to make better judgements on deployment of financial resources as well as improving operational efficiency. Fourthly, it is likely that access to microcredit not only enables MSE owner-managers to access quality BDS but also helps them execute the skills acquired. Therefore, in essence access to microcredit becomes a necessary ingredient to accessing quality BDS, which enables MSE owner-managers to use their resources more productively. Further, MSE owner managers report higher satisfaction with MFI supplied BDS compared to independently sourced BDS, which means that integrating BDS and microcredit provision could improve the overall effectiveness of BDS delivery. This is because contact hours as well as the level of commitment for both BDS clients and their agents are likely to increase. Lastly, the fact that MSE owner-managers with tertiary and above level education are more likely to be satisfied with current BDS than their less educated counterparts may imply that, with the added benefit of higher education, MSE owner-managers are able to discern their advisory needs, differentiate between excellent and poor quality BDS, choose an appropriate provider or implement advice more effectively.

In view of these findings and their implications, lessons can be learned for better targeting and delivery methodology for microfinance services. Consistent with Sievers and Vandenberg (2007), Akoten (2007b), and Armendariz and Morduch (2010); and in the context of poverty alleviation, the development agenda upon which the legitimacy of microfinance hinges, integrating microcredit and BDS provision is likely to improve the livelihoods of the poor. As such, neglecting or de-emphasising BDS provision, even in the interests of building self-sufficient microfinance institutions, is in the long run likely to significantly reduce growth prospects for MSEs – the primary market for microfinance services. Therefore there is urgent need for developing countries to establish more effective and appropriate regulatory guidelines, within the current Poverty Reduction Strategy Papers (PRSP) policy framework. This needs to be done to

ensure that microfinance practitioners keep their promise and ‘walk the talk’ and hence avoid further deviation from the poverty mission.

Further although women have been the primary target for microfinance, the insight here is that success could be leveraged if young adult women with a minimum tertiary level education are given priority. This does not however imply that other women from different social economic backgrounds or men should be discriminated against, rather that MFIs should embrace a product-market strategy broadly in their operations. Further, in order to improve the quality and delivery of BDS to MSEs, collaborations should be sought from like-minded institutions. Additionally, there is need to institute accreditation for all BDS providers and probably for MFIs too, to significantly scale down the risk of poor quality and irrelevant training. These issues are part of an agenda for future research which is presented next.

8.5 Limitations and Areas for further research

Authors Hulme (2000) and Khalily (2004) note that microfinance impact studies face three key limitations, especially where an experimental design is used; namely participant selection bias, credit fungibility, and misspecification of causal relationships. The problem of ‘selection bias’ arises out of a number of factors such as location selection or endogeneity of program placement, existence of ‘invisible’ characteristics between treatment and control groups, a Hawthorne effect on participants in the treatment group, contamination of participants across groups, and fungibility of treatment (Hulme, 2000). According to Khalily (2004) the argument here is that for impact studies, using an experimental approach may firstly make it difficult to identify a control group in a far away location that shares a socio-eco-political environment similar to that of the treatment group. Secondly, it is feared that the treatment group may possess some ‘invisible’ attribute(s) which the control group lacks, and thirdly there is the possibility of short-term positive effects resulting from treatment conditions. Finally there are concerns about existence of multiple sources of credit which are concurrently accessible to MSE owner-managers. It is further argued that once accessed, credit may be transferred to other people or used in ways not originally intended or disclosed (for example, for personal rather than business use).

While it is acknowledged that selection bias is a potential problem, for this study attempts are made to minimise the issue. First recruitment of participant MSE owner-managers is random and haphazard. In addition participation in the study is both voluntary and anonymous. This is done in order to ensure that participants across the three categories involving use of BDS and/or microcredit, and the control group (use of neither), are as equivalent as possible except for the treatment variables. Second participants across all groups are selected concurrently from four urban and semi-urban sites which possess reasonably similar economic and social environments yet which are geographically disperse. Thirdly in view of the random recruitment and placement of participants to their respective categories, distribution of any ‘invisible’ attributes that may confound the treatment effect is likely to be equally random.

Although loan fungibility remains a problem, especially for studies focusing on the enterprise (Hulme, 2000, Khalily, 2004), the aim of this study is not to control for fungibility in order to ‘prove’ impact. Rather the aim is to test for existence of an association between use of BDS and microcredit and performance of the MSE owner-managers’ business, regardless of how many sources of credit are used or the number of times it is used, in order to inform the practice of microfinance. Further as Hulme (2000) cautions, this study recognises that microenterprise inputs and outputs cannot be measured precisely and, as such, not only uses a control group but also controls for business/personal motive in seeking the loan to minimise the possible effect of fungibility of microcredit.

The misspecification of underlying causal relationships arises out of the assumption that causality is a one-way movement. In the context of this study, such an assumption can imply that access to microcredit and BDS among MSE owner-managers leads to an increase in the performance of their enterprises and not the reverse. As Hulme (2000) notes, the problem of causal misspecification can be overcome through a number of ways, namely conceptualising causation as a two-way process; tracing dropouts from treatment as well as control groups; enlisting participants from mature programmes only; and conducting in-depth interviews with clients retrospectively.

In this study, a cross-sectional rather than longitudinal or process-oriented analytical framework is used so dropouts are not an issue. Further, the preliminary interview

checks upon which categorisation into treatment and control groups depended, established that the non-control group participants belonged to well-established microfinance institutions as members. In addition, this study used in-depth interviews with microfinance clients to elicit the data, as suggested by Hulme (2000). Hence, it is important to note that causality or rather its specification is not a major concern for this study. As stated above, the aim of this study is to examine the relationship between use of microcredit and/or BDS on the one hand and perceived performance of MSEs on the other.

However it may be argued that MSE owner-managers who manage to access microcredit and/or BDS are likely to repeat such access because of positive experiences, and, as a result, their businesses are likely to perform better than those accessing either service singly or those with no access at all. It is worth noting that this study employs a two by two quasi-experimental (field) design and uses multiple regression techniques to analyse quantitative data, controlling for differences in characteristics of the owner-manager and the enterprise as well. In addition, the study triangulates MSE owner-managers' data with views elicited from qualitative interviews with MFI and BDS representatives, and independent researchers. As such these efforts minimise the possibility of correlation and/or causal misspecifications.

Other limitations pertain to the adoption of correlation-based analytical methods when many of the study's variables are either categorical or ordinal in nature. The use of a quantitative multivariate approach is preferred due to its efficiency to concurrently handle multiple explanatory and control variables when modelling effects on an output variable, a case obvious to this study. It is important to note that the validity of all data collection instruments used in this study is tested through piloting and peer review. Further although normality is not assumed, before any possible transformations of categorical data to permit correlation analysis are carried out, the necessary tests of reliability are first undertaken.

Areas for further research

An important conclusion drawn from this study is that use of BDS has a catalytic effect on perceived performance of MSEs, especially those in receipt of microcredit. While in aggregate this study measures its output variable, being MSE owner-manager

perceptions on the performance of their enterprises, using an index generated from scores on a Likert-type scale; future research may investigate the hypothesis by way of actual financial indicators of firm performance. This may, for example involve use of a ratio like return on investment (ROI). However, because of the paucity of financial records kept by most MSEs in developing countries, this approach was not considered appropriate here.

The study finds evidence of demand for and use of BDS, whether its source is affiliated to or independent of microfinance institutions. Further research may investigate determinants of demand for BDS, especially in the context of the value chain of the common MSE activity clusters found in developing countries. In the same vein, investigations could attempt to map out the best regulatory framework and options for collaborative BDS and microcredit provision to MSEs. This study finds some independent BDS sources (for example, private consultants and academics) unattractive to MSE owner-managers. Given the important role academics play in the education system in any country, future research could explore the factors behind this predisposition and suggest innovative mechanisms through which academics and private consultants could contribute towards more effective delivery of BDS to MSEs.

Further the study finds no significant correlation between; on the one hand relations with and/or competence of BDS agency staff, group mode of BDS delivery and perceived professionalism of BDS source; and on the other, MSE owner-managers' satisfaction with BDS delivery. Future research might aim to clarify the basis for this unexpected relationship. In addition results of this study reveal that seemingly there is a gender-based performance differential among MSEs, in that young adult women owner-managers report higher self-performance ratings than their male counterparts, regardless of access to microcredit or BDS. Even in the unlikely event that there could be a confounding factor inherent in the female cohort of the study's sample (for example, a personality type willing to be recruited), further research could seek to explain the gender paradox implied in the results. This is especially important given that males are more frequently represented among owner-managers in Kenya (Liedholm, 2002, ILO, 2008). In addition, given the apparent influence owner-managers' level of education has on perceived performance of their enterprises; future research on BDS may target countries with lower education levels than Kenya. Among other areas for future research is the need for exploratory research on the adoption of modern information

technology in enhancing delivery of BDS, as well as microcredit under the emerging agency and internet-based practice of microfinance.

Bibliography

- Adegbite, S., M. Ilori, et al. (2007). "Evaluation of the impact of entrepreneurial characteristics on the performance of small scale manufacturing industries in Nigeria." *Journal of Asia Entrepreneurship and Sustainability* 3(1): 1.
- Akoten, E. J. (2007a). "Determinants of Small Firm Productivity and Growth in Kenya: Its Implications for Policy." Institute of Policy Analysis & Research (IPAR), Discussion paper no. 091.
- Akoten, E. J. (2007b). "Breaking the Vicious Cycle of Poor Access to Credit by Micro and Small Enterprises." Institute of Policy Analysis & Research (IPAR), Discussion paper no. 095.
- Anami, L. (2009). Capacity building can empower women entrepreneurs. *Standard newspaper*. 31st August
- Arch, G. (2005). "Microfinance and development: Risk and return from a policy outcome perspective." *Journal of Banking Regulation* 6(3): 227-245.
- Argwings-Kodhek, G., M. Kwamboka, et al. (2004). *Feast and Famine: Financial Services for Rural Kenya*. Tegemeo Institute working paper. Nairobi, Tegemeo Institute of Agricultural Policy and Development: 1-35.
- Argwings-Kodhek, G., M. Kwamboka, et al. (2004). *Feast and Famine: Financial Services for Rural Kenya*. Tegemeo Rural Finance Paper. T. I. o. A. P. a. Development, Tegemeo Institute of Agricultural Policy and Development: 1-38.
- Armendariz, B. and J. Morduch, Eds. (2010). *The Economics of Microfinance*, The MIT Press.
- Aron, M. (2010). *Micro-finance's top credit market*. Standard. Nairobi, Standard Group.
- Atieno, R. (2001). Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: An empirical assessment. AERC Research paper. Nairobi, African Economic Research Consortium:1-40.
- Atieno, R. (2001). "Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: An empirical Assessment." *African Economic Research Consortium AERC Research Paper*, 111.
- Baron, R. A. and G. D. Markman (2003). "Beyond social capital: the role of entrepreneurs' social competence in their financial success." *Journal of Business Venturing* 18(1): 41-60.
- Bennett, L. (1998). Combining social and financial intermediation to reach the poor: the necessity and dangers. *Strategic Issues in Microfinance*. M. S. Kimenyi, R. C. Wieland and J. D. V. Pischke. Aldershot England, Ashgate.
- Bennett, R. J. and P. J. A. Robson (1999). "The use of external business advice by SMEs in Britain." *Entrepreneurship and Regional Development* 11: 155-80.
- Benson, R. (2006). "News Media as a journalistic Field: What Bourdieu Adds to New Institutionalism, and Vice Versa." *Political Communication* 23(2): 187 - 202.
- Berry, A. J. and R. Sweeting (2006). "The effect of business advisers on performance of SMEs." *Journal of Small Business and Enterprise Development* 13(1): 33-47.
- Boter, H. (2005). "SME perspectives on business support services: The role of company size, industry and location." *Journal of Small Business and Enterprise Development* 12(2): 244-258.
- Bourdieu, P. (1977). *Outline of a Theory of Practice* Cambridge, UK, Cambridge University press.
- Bourdieu, P. (1990). *The Logic of Practice*. Cambridge UK, Polity
- CBK (2008). *Annual Report*. CBK annual financial report. Nairobi, Central Bank of Kenya.

- CBK, C. B. o. K. (2009). FinAccess National Survey 2009 - Dynamics of Kenya's changing financial landscape. Financial Sector Deepening (FSD), CBK.
- Central Bank of Kenya (2007). NOTICE TO THE PUBLIC ON UNREGULATED FINANCIAL INVESTMENT SCHEMES (e.g. PYRAMID SCHEMES) B. S. DEPARTMENT, Central Bank of Kenya.
- Chaston, I. (2008). "Small creative industry firms: a development dilemma?" *Management Decision* 46(6): 819.
- Chi, N.-W., C.-Y. Wu, et al. (2008). "Does training facilitate SME's performance? ." *The International Journal of Human Resource Management* 19(10): 1962-1975.
- Christen, R. P. (2000). *Commercialisation and Mission Drift - The Transformation of Microfinance in Latin America*. Washington, D.C., CGAP.
- Christen, R. P., T. R. Lyman, et al. (2003). *Guiding Principles on Regulation and Supervision of Microfinance*. Microfinance Consensus Guidelines. Washington, D.C., CGAP/The World Bank: 1-33.
- Cohen, J. (1988). *Statistical power analysis for the behavioural sciences*. New Jersey, Lawrence Erlbaum Associates Inc.
- Coleman, B. E. (1999). "The impact of group lending in northeast Thailand." *Special issue on group lending - Journal of Development Studies*(60): 105-142.
- Cook, R. G. and P. Belliveau (2004). "The influence of human capital attributes in microenterprise training." *Journal of small business and enterprise development* 11(4): 467-473.
- Cook, R. G. and P. Belliveau (2004). "The influence of human capital attributes in microenterprise training." *Journal of Small Business and Enterprise Development* 11(4): 467.
- Cooper, D. R. and P. S. Schindler (2006). *Business research methods*. Boston, McGraw-Hill/Irwin.
- Craig, K. (2005). *Why Donors need to Understand Product Development*. Donor Brief. CGAP. Washington DC., CGAP.
- Creswell, J. W. (2003). *Research design : qualitative, quantitative, and mixed methods approaches* California, Thousand Oaks; Sage Publications.
- Curran, J., R. Jarvis, et al. (1997). "The Pricing Decision in Small Firms: Complexities and the Reprioritising of Economic Determinants " *International Small Business Journal* 15(2): 17-32.
- Daley-Harris, S. (2009). *STATE OF THE MICROCREDIT SUMMIT CAMPAIGN REPORT 2009*. Washington, DC, Microcredit Summit Campaign.
- Daniels, L. (1999). "The role of small enterprises in the household and national economy in Kenya: A significant contribution or a last resort?" *World Development* 27(1): 55-65.
- Dawson, J. (1997). "Beyond credit - the emergence of high-impact, cost-effective business development services." *Small Enterprise Development* 8(3): 15-25.
- DiMaggio, P. (1979). "Review: On Pierre Bourdieu." *The American Journal of Sociology* 84(6): 1460-1474.
- DiMaggio, P. J. and W. W. Powell (1983). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." *American Sociological Review* 48(2): 147-160.
- DiMaggio, P. J. and W. W. Powell (1991). *The new institutionalism in organizational analysis*. Chicago, IL, University of Chicago.
- Dobbin, F. (2008). "The poverty of organizational theory: Comment on: "Bourdieu and organizational analysis"." *Theory and Society* 37(1): 53-63.

- Dondo, A. (1999). The Status of Microfinance in Kenya. Status of Microfinance in Kenya
Nairobi, African Rural and Agricultural Credit Association (AFRACA).
- Dondo, A. (2003). The Microfinance Industry in Kenya. Nairobi, Kenya Bankers Association.
- Dorado-Banacloche, S. (2000). Social entrepreneurship : the process of creation of microfinance organisations in Bolivia. Faculty of Management. Montreal, McGill. Doctor of Philosophy.
- Dunn, E. and J. J. Arbuckle (2001). The impacts of microcredit: a case study from Peru AIMS, USAID. Empowerment of Women (Eds.). H. AMM. Dhaka, BRAC.
- Edward, P. and W. Olsen (2006). "Paradigms and Reality in Micro-Finance: The Indian Case " Perspective on Global Development and Technology 5 (1-2): 31-54.
- Eikebrokk, T. R. and D. H. Olsen (2009). "Training, Competence, and Business Performance: Evidence from E-business in European Small and Medium-Sized Enterprises." International Journal of E-business research 5(1): 92-116.
- Emirbayer, M. and V. Johnson (2008). "Bourdieu and organizational analysis." Theory and Society 37(1): 1-44.
- Everett, J. (2002). "Organizational research and the praxeology of Pierre Bourdieu." Organizational Research Methods 5(1): 56.
- Faoite, D. D., C. Henry, et al. (2004). "Entrepreneurs' attitudes to training and support initiatives: evidence from Ireland and The Netherlands." Journal of Small Business and Enterprise Development 11(4): 440-448.
- Folwer, A. and K. Kinyanjui (2004). 'Indigenising Foreign Seed on African Soil' -The Story of K-Rep. Nairobi, K-Rep Group
- Fowler, A. and K. Kinyanjui (2004). "Indigenising Foreign Seed on African Soil - The Story of K-Rep." Kenya Rural Entrepreneurship Programme (K- rep) publication.
- Frank, C. (2008) "Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line " Volume, DOI:
- Gibb, A. (2006). "Making markets in business development services for SMEs " Journal of Small Business and Enterprise Development 13(2): 263-283.
- Gibb, A. (2006). "Making markets in business development services for SMEs - Taking up the Chinese challenge of entrepreneurial networking and stakeholder relationship management." Journal of small business and enterprise development 13(2): 263-283.
- Gibson, A. (1997). "Business development services - core principles and future challenges." Small Enterprise Development 8(3): 4-14.
- Gobbi, M. S. D. (2005). Micro-finance and microenterprise development: Their contribution to the economic empowerment of women. Small Enterprise Development/WEDGE programme. Geneva, ILO.
- Godquin, M. (2004). "Microfinance Repayment Performance in Bangladesh: How to Improve the Allocation of Loans by MFIs." World Development 32(11): 1909-1926.
- Goetz, A. M. and R. S. Gupta (1996). "Who takes the credit? Gender, power, and control over loan use in rural credit programs in Bangladesh." World Development 24(1): 45.
- GOK, R. o. K. (2005). "Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction." Sessional paper no. 2.
- GOK, R. o. K. (2006). Economic Recovery Strategy for Wealth and Employment Creation. Nairobi, Government Press: 1-61.

- GOK, R. o. K. (2006c). "The Microfinance Act." Kenya gazette supplement no. 103(19).
- GOK, R. o. K. (2007a). Economic Survey 2007. M. o. P. a. N. Development, Government press.
- GOK, R. o. K. (2007c). "Kenya Vision 2030." Vision 2030.
- GOK, R. o. K. (2008). "FIRST MEDIUM TERM PLAN (2008 - 2012)." Vision 2030-A Globally Competitive and Prosperous Kenya
- Goldberg, N. (2005). Measuring the Impact of Microfinance: Taking stock of what we know. Grameen Foundation USA Publication, Grameen Foundation USA.
- Goldmark, L. (1999). "The financial viability of business development services." Small Enterprise Development 10: 4-16.
- Goldmark, L. (2006). Beyond finance: Microfinance and business development services. An Inside View of Latin American Microfinance. i.-A. D. Bank, inter-American Development Bank.
- Gow, D. (2010). Fundamentals of Multiple Regression. Brisbane, Australian Consortium for Social and Political Research Incorporated (ACSPRI).
- Grameen America. (2010). from <http://www.grameenamerica.com/>.
- Grameen, B. (2010). "16 Decisions." Retrieved 13th March, 2009, from <http://www.grameen-info.org>.
- Habib, M. (2008). Do MFIs fight Social exclusion? Evidence from Bangladesh. Melbourne, Deakin University. Doctor of Philosophy.
- Hallberg, K. (2006). "A retrospective assessment of the Kenya Voucher Training Programme." Small Enterprise Development 17: 56-67.
- Hartarska, V. and D. Nadolnyak (2008). "An Impact Analysis of Microfinance in Bosnia and Herzegovina." World Development 36(12): 2605.
- Hartungi, R. (2007). "Understanding the success factors of micro-finance institution in a developing country." International Journal of Social Economics, 34(6): 388-401.
- Hashemi, S. M., S. R. Schuler, et al. (1996). "Rural credit programs and women's empowerment in Bangladesh." World Development 24(4): 635-653.
- Hisrich, R. D. and M. P. Peters (1998). Entrepreneurship Boston, MA, McGraw-Hill.
- Hulme, D. (2000). "Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice." World Development 28(1): 79-98.
- IFC (2009b). "Supporting Private Enterprises." IFC Challenges for SMEs.
- ILO (2008). Factors affecting Women Entrepreneurs in Micro and Small Enterprises in Kenya. Small Enterprise Programme. ILO. Addis Ababa, ILO.
- Jakimow, T. and P. Kilby (2006). "Empowering Women: A Critique of the Blueprint for Self-help Groups in India." Indian Journal of Gender Studies 13(3): 375-400.
- Jayawarna, D., A. Macpherson, et al. (2007). "Training commitment and performance in manufacturing SMEs." journal of small business and enterprise development 14(2): 321.
- Johnson, S., M. Malkamaki, et al. (2006). "Tackling the 'frontiers' of microfinance in Kenya: the role for decentralized services." Small Enterprise Development 17: 41-53.
- KenyaBDS. (2007). "Agriculture and Enterprise Development." Agriculture and Enterprise Development
Retrieved 20th April 2008, from <http://www.kenyabds.com/>.
- Khadaroo, M. I. (2005). "An institutional theory perspective on the UK's Private Finance Initiative (PFI) accounting standard setting process." Public Management Review 7(1): 69 - 94.

- Khalily, M. A. B. (2004). "Quantitative approach to impact analysis of microfinance programmes in Bangladesh--what have we learned?" *Journal of International Development* 16(3): 331.
- Khandakar, Q. E. and P. D. Constantine (2004). "MICROFINANCE AND THIRD WORLD DEVELOPMENT: A CRITICAL ANALYSIS." *Journal of Political and Military Sociology* 32(1): 61.
- Khandakar, Q. E. and P. D. Constantine (2004a). "MICROFINANCE AND THIRD WORLD DEVELOPMENT: A CRITICAL ANALYSIS." *Journal of Political and Military Sociology* 32(1): 61.
- Khandakar, Q. E. and P. D. Constantine (2004b). "Microcredit and the Third World: Perspectives from moral and political philosophy." *International Journal of Social Economics* 31(7/8): 643.
- Khandker, S. R. (2005). "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh." *The World Bank Economic Review* 19(2): 263.
- Kibaara, B. (2006). *Rural Financial Services in Kenya: What is Working and Why?* T. I. o. A. P. a. Development, Tegemeo Institute of Agricultural Policy and Development: 1-43.
- King-Kauanui, S., S. D. Ngoc, et al. (2006). "IMPACT OF HUMAN RESOURCE MANAGEMENT: SME PERFORMANCE IN VIETNAM." *Journal of Developmental Entrepreneurship* 11(1): 79.
- Klyver, K. (2008). "The shifting consultant involvement." *Journal of small business and enterprise development* 15(1): 178-193.
- Kondra, A. Z. and D. C. Hurst (2009). "Institutional processes of organizational culture." *Culture and Organization* 15(1): 39 - 58.
- Kotey, B. and A. Sheridan (2004). "Changing HRM practices with firm growth." *Journal of small business and enterprise development* 11(4): 474.
- Larsen, P. T. (2009). *Financial Times*. London. 6th, April.
- Ledgerwood, J. (1999). *Microfinance Handbook: An Institutional and Financial Perspective*. Washington, D.C., The World Bank.
- Lепенies, P. H. (2004). "Exit, Voice, and Vouchers: Using Vouchers to Train Microentrepreneurs--Observations from the Paraguayan Voucher Scheme." *World Development* 32(4): 713-724.
- Library of Congress (2007). *Country Profile: Kenya*. Country Profile. Washington, DC., Library of Congress- Federal Research Division.
- Liedholm, C. (2002). "Small Firm Dynamics: Evidence from Africa and Latin America." *Small Business Economics* 18: 225-240.
- Lont, H. and O. Hospes (2004). *Livelihood and Microfinance: Anthropological and Sociological Perspectives on Savings and Debt*. Eburon Delft, Eburon Academic Publishers.
- Lounsbury, M. (2007a). "A TALE OF TWO CITIES: COMPETING LOGICS AND PRACTICE VARIATION IN THE PROFESSIONALIZING OF MUTUAL FUNDS." *Academy of Management Journal* 50(2): 289.
- Lounsbury, M. (2008). "Institutional rationality and practice variation: New directions in the institutional analysis of practice." *Accounting, Organizations and Society* 33(4-5): 349-361.
- Lounsbury, M. and E. T. Crumley (2007b). "New Practice Creation: An Institutional Perspective on Innovation." *Organization Studies* 28(7): 993-1012.
- Ma, Y. and M. Tayles (2009). "On the emergence of strategic management accounting: an institutional perspective." *Accounting and Business Research* 39(5): 473.

- Battisti, M. and D. Deakins, et al. (2010). Management Capability - Perspectives from New Zealand Small Firms. *BusinessSMEasure*, New Zealand Centre for Small & Medium Enterprise Research.
- Masakure, O., S. Henson, et al. (2009). "Performance of microenterprises in Ghana: a resource-based view." *Journal of small business and enterprise development* 16(3): 466.
- Matlay, H. (2004). "Contemporary training initiatives in Britain: a small business perspective." *Journal of Small Business and Enterprise Development* 11(4): 504-513.
- Mayoux, L. (1997). Impact assessment and women's empowerment in microfinance programmes: issues for a participatory action and learning approach mimeo. Washington, DC, Consultative Group to Assist the Poor (CGAP).
- Mayoux, L. (1998) "Participatory Learning for Women's Empowerment in Micro-finance Programmes: Negotiating Complexity, Conflict and Change." *IDS Bulletin* Volume, 39-50 DOI:
- Mayoux, L. (2000). Micro-finance and the empowerment of women - A review of the key issues. ILO Social Finance Unit. Geneva, ILO.
- Michna, A. (2009). "The relationship between organizational learning and SME performance in Poland." *Journal of European Industrial Training* 33(4): 356.
- Microcredit summit campaign (1997). Global Summit on Microcredit, Washington DC., Microcredit summit campaign.
- Ministry of Planning and National Development - Kenya (2006). Economic Recovery Strategy for Wealth and Employment Creation. M. o. P. a. N. Development, Government Press: 1-61.
- Morduch, J. (1998). Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh. Stanford University, Hoover Institution.
- Morduch, J. (1999). "The Microfinance Promise." *Journal of Economic Literature* 37(4): 1569-1614.
- Morduch, J. (2000). "The Microfinance Schism." *World Development* 28(4): 617-629.
- Morduch, J. and B. Haley (2002). Analysis of the Effects of Microfinance on Poverty Reduction. NYU Wagner Working Paper series. New York, NYU.
- Morrison, A., J. Breen, et al. (2003). "Small business growth: intention, ability, and opportunity. (Global perspective)." *Journal of Small Business Management* 41.4: 417-9.
- Mosley, P. (1997). The use of control groups in impact assessment for microfinance mimeo. Washington, DC., Consultative Group to Assist the Poorest (CGAP).
- Mukulu, E. (2004). Factors that affect direct and indirect transfer of training in micro and small enterprises in Kenya. United States -- Illinois, University of Illinois at Urbana-Champaign: 161.
- Murphy, G. B., J. W. Trailer, et al. (1996). "Measuring performance in entrepreneurship research." *Journal of Business Research* 36(1): 15-23.
- Mustafa, S., I. Ara, et al. (1996). An impact assessment study of BRAC's Rural Development Programme Dhaka, BRAC.
- Muyanga, M., M. Ayieko, et al. (2007). Transient and Chronic Rural Household Poverty: Evidence from Kenya. Transient and Chronic Rural Household Poverty. T. I. o. A. P. a. Development. Nairobi, Kenya, Tengemeo Institute of Agriculture: 1-35.
- Ngugi, A. (2009). "High finance comes down to 'kadogo'." *The standard newspaper*, 4th February, 2009.

- O'Regan, N., L. Stainer, et al. (2010). "Training in SMEs and its relationship to profitability." *Int. J. Human Resources Development and Management* 10(2): 166-181.
- Oakes, L. S., B. Townley, et al. (1998). "Business planning as pedagogy: Language and control in a changing institutional field." *Administrative Sciences Quarterly* (43): 257-292.
- Official Journal of the European Union (2003). Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. L124/36.
- Oliver, C. (1997). "Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views." *Strategic Management Journal* 18(9): 697-713.
- Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. ESSAYS ON REGULATION AND SUPERVISION. IRIS, CGAP.
- Ondari, J. (2008). "Microfinance Firms Yet to Take Advantage of Friendly Law " *The Daily Nation newspaper* 13th October, 2008.
- Oyelaran-Oyeyinka, B. and K. Lal (2006). "Institutional Support and Collective Learning: Cluster Development in Kenya and Ghana." *African Development Bank*.
- Oyuke, J. (2009). "Barclays, ICPAK partner to boost small businesses." *The standard newspaper*, 17th October, 2009.
- Özen, Ş. and F. Küskü (2009). "Corporate Environmental Citizenship Variation in Developing Countries: An Institutional Framework." *Journal of Business Ethics* 89(2): 297-313.
- Pitt, M. M. and S. R. Khandker (1998). "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *The Journal of Political Economy* 106(5): 958-996.
- Pittaway, L. and P. Hannon (2008). "Institutional Strategies for developing enterprise education." *Journal of Small Business and Enterprise Development* 15(1): 202-226.
- Porter, M., Ed. (1998). *The Competitive Advantage of Nations*. Basingstoke, Palgrave.
- Powell, W. W. and P. J. DiMaggio (1991). *The New Institutionalism in Organisational Analysis*. Chicago, The University of Chicago Press.
- Remenyi, J. (2002). "Microfinance best practice: ten parameters of success for development NGOs." *Development Bulletin* 57: 40-44.
- Remenyi, J. and B. Quinones (2000). *Microfinance and Poverty Alleviation (Case Studies from Asia and the Pacific)*. New York, PINTER.
- Richardson, P., R. Howarth, et al. (2004). *The Challenges of Growing Small Businesses: Insights from Women Entrepreneurs in Africa. Women's Entrepreneurship and Gender Equality-WEDGE*. ILO. Geneva, ILO.
- Robinson, M. (2001). *The Microfinance Revolution: Sustainable finance for the poor*. Washington, D.C., The World Bank.
- Rogerson, C. M. (2001). "In search of the African miracle: debates on successful small enterprise development in Africa." *Habitat International* 25(1): 115-142.
- Roslan, A. H. and M. Z. A. Karim (2009). "Determinants of microcredit repayment in Malaysia: The case of Agrobank." *Humanity & Social Sciences Journal* 4(1): 45-52.
- Roy, M.-A. and D. Wheeler (2006). "A survey of micro-enterprise in urban West Africa: drivers shaping the sector." *Development in Practice* 16(5): 452-464.

- Sabana, B. (2005). "Incorporating Microfinance into Kenya's Economic Recovery Strategy " UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)(16).
- Satta, T. A. (2004). "Microfinance regulation influence on small firms' financing in Tanzania." *Journal of Financial Regulation and Compliance* 12(1): 64.
- Schmidt, M. C. and J. M. Kolodinsky (2007). "MICROENTERPRISE DEVELOPMENT PROGRAM SUCCESS: A PATH ANALYSIS OF FACTORS THAT LEAD TO AND MEDIATE CLIENT SUCCESS." *Journal of Developmental Entrepreneurship* 12(1): 47.
- Schmidt, R. H. (2010). "Microfinance, Commercialization and Ethics." *Poverty & Public Policy* 2(1): 99-137.
- Schmidt, R. H. and C.-P. Zeitingner (1998). Critical issues in microbusiness finance and the role of donors. *Strategic Issues in Microfinance*. M. W. Kimenyi, R. C. Weinland and J. D. V. Pischke. Aldershot England, Ashgate.
- Scott, R. W. (2008). *Institutions and Organizations: Ideas and Interests*. Los Angeles, SAGE.
- Scott, W. R. (1987). "The Adolescence of Institutional Theory." *Administrative Science Quarterly* 32(4): 493-511.
- Seibel, H. D. and B. K. C. Kumar (1998). Microfinance in Nepal: Institutional viability & sustainability and their compatibility with outreach to the poor. Working paper. U. o. C.-D. R. Center. Cologne, Germany, University of Cologne-Development Research Center: 1-19.
- Shadish, W. R., T. D. Cook, et al. (2002). *Experimental and quasi-experimental designs for generalized causal inference*. Boston, Houghton Mifflin.
- Shakya, Y. B. and K. N. Rankin (2008). "The Politics of Subversion in Development Practice: An Exploration of Microfinance in Nepal and Vietnam." *Journal of Development Studies* 44(8): 1214-1235.
- Sharma, M. and G. Buchenrieder (2002). Impact of Microfinance on Food Security and Poverty Alleviation: A review and synthesis of empirical evidence. *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*. M. Z. R. Meyer. Baltimore, The Johns Hopkins University Press.
- Shaw, J. (2004). "Microenterprise Occupation and Poverty Reduction in Microfinance Programs: Evidence from Sri Lanka." *World Development* 32(7): 1247-1264.
- Shaw, J. and M. Clarke (2006). *Best Practice? Eliminating Microfinance Subsidies in Post-Conflict Environment: The Case of Bougainville*. Aid in Conflict, Nova Science Inc.
- Shenkin, M. and A. B. Coulson (2007). "Accountability through activism: learning from Bourdieu." *Accounting, Auditing & Accountability Journal* 20(2): 297.
- Sievers, M. (2007). "Synergies through Linkages: Who Benefits from linking Micro-Finance and Business Development Services?" *World Development* 35(8): 1341-1358.
- Sievers, M. and P. Vandenberg (2007). "Synergies through Linkages: Who Benefits from Linking Micro-Finance and Business Development Services?" *World Development* 35(8): 1341-1358.
- Smets, P. and E. Bahre (2004). *When Coercion Takes Over: The Limits of Social Capital in Microfinance Schemes*. *Livelihood and Microfinance*. H. Lont and O. Hospes. Delft, Eburon
- Snodgrass, D. and J. Sebstad (2002). *Clients in Context: The Impacts of Microfinance in Three Countries - Synthesis Report* USAID.

- Storey, D. J. (2004). "Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries." *The International Journal of Human Resource Management* 15(1): 112 - 130.
- Suzuki, A. (2002). "The training market for MSEs in developing countries." *Small Enterprise Development* 13: 49-57.
- The Economist (2009). 'A partial marvel: Microcredit may not work wonders but it does help the entrepreneurial poor'. *The Economist*.
- UNDP (2009). Human Development Report 2009. Geneva, UNDP.
- UNDP (2009). Human Development Report 2009 - Kenya. Geneva, United Nations Development Programme (UNDP).
- United Nations (2000). United Nations Millennium Declaration. United Nations General Assembly.
- United Nations (2009). The Millennium Development Goals Report 2009 New York, United Nations.
- Wambugu, Munga, et al. (2009). "Unemployment in Kenya: The situational analysis." Kenya Institute for Public Policy Research and Analysis (KIPPRA).
- Webster, L. M., R. Riopelle, et al. (1996). World Bank Lending for Small Enterprises 1989-1993. World Bank technical paper. Washington, D.C, World Bank 1-85.
- Wood, E. H. (2006). "The internal predictors of business performance in small firms." *Journal of Small Business and Enterprise Development* 13(3): 441.
- World Bank (2000). GLOBAL POVERTY REPORT. G8 Okinawa Summit Okinawa, Japan, The World Bank.
- World Bank (2005a). Financial Sector Assessment. Financial Sector Assessment Programme-FSAP. T. W. Bank. Washington, D.C, The World Bank: 1-16.
- World Bank. (2008). "Poverty Analysis Overview." Poverty Analysis Retrieved 19 May 2008, from <http://go.worldbank.org/K7LWQUT9L0>.
- World Bank (2009a). "World Development Indicators database."
- World Bank (2009b). "Kenya Poverty and Inequality Assessment: Executive Summary and Synthesis Report." Poverty Reduction and Economic Management Unit Africa Region.
- Wright, K. and J. Copestake (2004). "Impact assessment of microfinance using qualitative data: communicating between social scientists and practitioners using the QUIP." *Journal of International Development* 16(3): 355.
- Wry, T. (2009). "Does Business and Society Scholarship Matter to Society? Pursuing a Normative Agenda with Critical Realism and Neoinstitutional Theory." *Journal of Business Ethics* 89(2): 151.
- WWB, W. s. W. B. (2009). "Diagnostic to Action: Microfinance in Africa." Women's World Banking and the Africa Microfinance Action Forum to Host "Diagnostic to Action: Microfinance in Africa," A Multi-Stakeholder Conference on June 4, 2009 at the United Nations Offices in Nairobi, Kenya.
- Young, S. (2010). "The "Moral Hazards" of Microfinance: Restructuring Rural Credit in India." *Antipode* 42(1): 201-223.

Annex 1 – Map of Kenya reflecting selected study sites



Annex 2 – Interview Protocol – MSE Owner-manager

A:	Business Profile variables			
A1:	State the product(s)/services that you sell _____			
A2:	Industry affiliation:	Manufacturing ☐	Services ☐	
A3:	Type of ownership:		sole proprietorship ☐ limited company ☐ partnership ☐	
A4:	Stage in the business cycle:		discovery ☐ start-up ☐ newly-established ☐ established ☐	
A5:	Age of business (years):	less than 3 ☐ 7-10 ☐ 3-6 ☐ more than 10 ☐		
A6:	Employees:	1-2 ☐	3-5 ☐	6-9 ☐ 10 or more ☐
A7:	Branches:	1 only ☐	2-3 ☐	4-5 ☐ more than 5 ☐
A8:	Target market served:		immediate neighbourhood ☐ surrounding markets ☐ national market ☐ regional market ☐ international market ☐	
B:	Credit Services			
B1:	Do you have a business bank account? yes ☐ no ☐			
B2:	Check all the types of business accounts you run from the following options savings ☐ current ☐ investment ☐ fixed deposit ☐ fund ☐ other (specify) ☐ _____ _____			

B3:	Which sources of credit has your business benefited from? (tick all that apply)	personal savings ☐ bank loan ☐ family & friends ☐ NGO loan ☐ group scheme ☐ microfinance scheme ☐ government scheme ☐ other (specify) ☐
B4:	What type of business loan do you currently have? (tick all that apply) secured loan ☐ unsecured loan ☐ bank overdraft ☐	
B5:	How many repayment periods does the loan have? (years)	less than 1 ☐ 1-2 ☐ 3 or more ☐
B6:	What is the approximate interest rate per year?	below 15% ☐ 15%-20% ☐ 21%-30% ☐ more than 30% ☐
B7:	Is this your first business loan?	yes ☐ no ☐
B8:	What made you take the loan?	capital to start business ☐ acquire business asset ☐ increase stock ☐ seize a business opportunity ☐ repay another loan ☐ personal/household expenditure ☐ pay school fees ☐ other (specify) ☐
B9a:	Has the performance of your business improved since you took the loan? yes ☐ no ☐	
B9b:	If no (above), state the reasons why? 	

B9c:	In what ways has the business performance improved?(tick all that apply)	increased sales ☐ higher profits ☐ increased savings ☐ reduced debt ☐ increased liquidity ☐ less dependence on overdrafts ☐ more investments ☐ acquired more assets ☐ set up new branches ☐ hired more staff ☐ other (specify) ☐
C:	Business Development Services	
C1:	Which business advisory service agents have you used to facilitate business management decisions? (tick all that apply)	accountants/auditors ☐ consultants ☐ family ☐ friends ☐ business colleagues ☐ network contacts ☐ academics ☐ staff from microfinance scheme ☐ bank staff ☐ other support agencies (specify) ☐
C2:	What form of support have you received from the agents stated above?	market access ☐ infrastructure ☐ policy advocacy ☐ input supply ☐ management training ☐ technical assistance in operations ☐ product development ☐ regulatory compliance ☐ business counselling ☐ moral support ☐ other (specify) ☐
C3:	How would you rate the competence of the advisory agents used?	incompetent ☐ somehow competent ☐ fairly competent ☐ competent ☐ don't know ☐

C4:	How often do you use business advisory agents?	at least once every month ☐ once in three months ☐ once in six months ☐ once in a year ☐ only when in absolute need ☐
C5:	For how long have you used the current advisory agents?	less than 3 years ☐ 3-7 years ☐ more than 7 years ☐
C6:	Which business decisions areas do you frequently require advice?	keeping books of accounts ☐ financial literacy & credit use ☐ business planning ☐ human resource management ☐ sales & marketing ☐ production process design ☐ access to technology ☐ regulations & standards ☐ tax management ☐ legal services ☐ other (specify) ☐
C7:	List any business decision areas where you are unable to get satisfactory advice. 	
C8:	How would you rate your relationship with the advisory agents?	poor ☐ fair ☐ good ☐ excellent ☐
C9:	How would you rate the quality of services provided by your current advisory agents?	very unsatisfactory ☐ unsatisfactory ☐ satisfactory ☐ very satisfactory ☐
C10:	How did you get to know the agents you are using?	through a microfinance scheme ☐ recommended by friends ☐ personal initiative ☐ through business colleagues ☐ agent's own marketing efforts ☐ other (specify) ☐

C11:	In which ways do you access advice from your advisory agents?	contracted regular visits to business site ☐ contracted regular visits to agent's offices ☐ contracted group sessions ☐ contracted one off project assignment ☐ other (specify) ☐ _____				
C12:	What benefits have you enjoyed from engaging external advisors?	access to professional input ☐ independent opinion on critical decisions ☐ skill development ☐ technical support ☐ moral support ☐ other (specify) ☐ _____ _____				
C13:	What drawbacks might accrue from engaging external advisers?	breach of privacy ☐ leakage of business information/secrets ☐ misleading advice ☐ dependency syndrome ☐ other (specify) ☐ _____ _____				
D:	Business Performance					
	[reference made to the immediate period after loan]					
	For the last two years of operation, assess the performance of your business in the following parameters;					
		noticeable decline:	steady decline:	no change:	steady increase:	noticeable increase:
Sales growth:	☐	☐	☐	☐	☐	☐
Profit:	☐	☐	☐	☐	☐	☐
Expenses:	☐	☐	☐	☐	☐	☐
Savings	☐	☐	☐	☐	☐	☐
Asset base:	☐	☐	☐	☐	☐	☐
Cashflow:	☐	☐	☐	☐	☐	☐
Stock level:	☐	☐	☐	☐	☐	☐
E:	Personal profile variables					
	Age (in years):	below 30 ☐ 30-40 ☐ 41-50 ☐ above 50 ☐				
	Gender:	female ☐ male ☐				

	Education:	primary level ☐ high school ☐ vocational training ☐ college ☐ graduate ☐
	Marital status:	single ☐ married ☐ divorced ☐ widowed ☐
	Family size:	2 members ☐ 3-4 members ☐ 5-6 members ☐ 7 or more members ☐
	Residence: own house ☐ rental ☐ mortgage ☐	
	Mode of transport used:	own car ☐ public transport ☐
	Occupation:	business only ☐ business and professional job ☐
	Gross monthly Income (KES):	below 20,000 ☐ 20,000 – 30,000 ☐ 31,000-40,000 ☐ 41,000-50,000 ☐ more than 50,000 ☐
	Monthly household expenses (KES):	below 10,000 ☐ 10,000-20,000 ☐ 21,000-30,000 ☐ more than 30,000 ☐
	How many years have you been in business?	less than 3 ☐ 3-6 ☐ 7-10 ☐ more than 10 ☐
	What training did you have prior to venturing into business?	relevant formal training ☐ on-the-job experience ☐ family business ☐ other (specify) ☐ _____ _____

Annex 3 – Interview Protocol – Microfinance Institution

A:	Microfinance Institutional Profile	
A1:	What services does your institution offer to micro and small enterprises?	credit ☐ training ☐ microleasing ☐ insurance ☐ other (specify) ☐
A2:	State the legal identity of your institution	limited liability company ☐ partnership ☐ listed company ☐ non-governmental organisation ☐ other (specify) ☐
A3:	For how many years have you operated in Kenya?	less than 3 ☐ 3-6 ☐ 7-10 ☐ more than 10 ☐
A4:	How geographically spread is your network?	national ☐ regional ☐ international ☐ global ☐
B:	Target Market	
B1:	In municipal terms, state where most of your clients are located (tick all that apply);	urban market centres ☐ semi-urban markets ☐ rural market centres ☐
B2:	What special reasons do you have for targeting micro and small enterprises in the settings stated above? 	
B3:	In which sector would you classify most of your clients?	agriculture ☐ manufacturing ☐ services ☐ general trade ☐
C:	Credit Delivery	
C1:	What is the average size of loan do you offer? (KES)	below 20,000 ☐ 20,000-49,000 ☐ 50,000-100,000 ☐ more than 100,000 ☐

C2:	For what purposes do most of your clients take loans?	start business ☐ acquire business asset ☐ increase stock ☐ seize a business opportunity ☐ repay another loan ☐ household expenditure ☐ pay school fees ☐ other (specify) ☐
C3:	What interest rate do you charge per month?	below 1% ☐ 1-2% ☐ 3% or more ☐
C4:	How long in the term for most of your loans?	less than 6 months ☐ 6 -12 months ☐ more than 12 months ☐
C5:	What form of collateral does your institution require?	savings ☐ car log book ☐ land ☐ building ☐ business machinery ☐ group affiliation ☐ guarantors ☐ other (specify) ☐
C6:	How often is the loan repayment?	weekly ☐ fortnightly ☐ monthly ☐ other (specify) ☐
C7:	Where do you source most of the funds lent out as loans? (tick all that apply)	deposits ☐ commercial bank loan ☐ donor loan ☐ government funds ☐ trust funds ☐ rotating group funds ☐ other (specify) ☐
C8:	Overall how would you rate the reliability of loan repayment by your clients?	very satisfactory : 1 2 3 4 5 very unsatisfactory:

C9:	Overall how would you rate the financial sustainability of your MFI's loan portfolio?	very satisfactory: 1 2 3 4 5 very unsatisfactory:
C10:	In what ways does your MFI deliver/administer credit services?	_____ _____
C11:	How does your MFI assess the credit worthiness of loan applicants?	_____ _____
C12:	In what ways have the MFI clients benefited from the credit services?	_____ _____
C13:	What challenges does you MFI face in serving micro and small enterprises?	_____ _____

Annex 4 – Interview Protocol – BDS Agency

A:	BDS Agency Profile	
A1:	What services does your organisation offer to micro and small enterprises? (tick all that apply)	management training ☐ market information liaison ☐ distribution ☐ sales promotion ☐ production process design ☐ product design ☐ packaging ☐ accounting/book keeping ☐ tax advice ☐ general counselling ☐ other (specify) ☐ _____
A2:	State the Legal identity of your organisation	sole proprietorship ☐ limited liability company ☐ partnership ☐ listed company ☐ non-governmental organisation ☐ other (specify)? ☐ _____
A3:	For how many years have your organisation operated in Kenya?	less than 3 ☐ 3-6 ☐ 7-10 ☐ more than 10 ☐
A4:	How many branch offices does your organisation have in Kenya?__	
A5:	How geographically spread is your organisation's branch network?	national ☐ regional ☐ international ☐ global ☐
B:	Target Market	
B1:	In municipal terms, state where most of the organisation's clients are located (tick all that apply)	urban market centres ☐ semi-urban markets ☐ rural market centres ☐
B2:	What special reasons does the organisation have for targeting micro and small enterprises in the settings stated above?	
B3:	In which sector would you classify most of the organisation's clients?	agriculture ☐ manufacturing ☐ services ☐ general trade ☐ other (specify) ☐ _____

C:	Service Delivery	
C1:	How does your organisation contact clients for the first time?	through direct selling ☐ referral by other clients ☐ referral by industry acquaintances ☐ referral by microfinance institution ☐ other (specify) ☐
C2:	Please rank (on a scale of 1 - 4) each of the following management aspects based on the frequency of advice required? (1= high priority aspect; 4 least priority aspect)	
		keeping books of accounts ☐ financial literacy & credit use ☐ business planning ☐ human resource management ☐ sales & marketing ☐ production process design ☐ access to technology ☐ regulations & standards ☐ tax management ☐ legal services ☐ other (specify) ☐
C3:	Through which mode does your organisation delivery its services? (tick all that apply)	one-on-one sessions ☐ group sessions ☐ mentoring ☐ apprenticeships ☐ vocational training ☐ incubator facility ☐ other (specify) ☐
C4:	In its operations, how does your organisation collaborate with microfinance institutions?	
C5:	In which ways does your organisation secure commitment of your clients?	
C6:	How often does your staff get to meet clients?	weekly ☐ fortnightly ☐ monthly ☐ other (specify) ☐
C7:	What mechanism does the organisation use to determine the service fees?	flat rate ☐ market rate ☐ time sheet system ☐ commission system ☐ other (specify) ☐

C8:	Overall how would you rate the commitment of the organisation's clients to training?	very satisfactory: 1 2 3 very unsatisfactory: 4 5
D:	Competence	
D1:	What level formal education is adequate for staff consulting in this field?	tertiary level diploma ☐ graduate ☐ post graduate ☐
D2:	What other special qualification should one have to work effectively in this field?	
D3:	How important is experience in operating a business, to training clients?	very important: 1 2 3 not important: 4 5
D4:	In a case where your organisation lacks internal capacity to handle a client's assignment, what do you do?	decline to contract ☐ refer client to an associate ☐ subcontract industry colleagues ☐ hire part time staff ☐
E:	Benefits	
E1:	In your opinion, in what ways have owners of micro and small enterprises benefited from the services provided by business development service agencies?	
F:	Challenges	
F1:	What challenges does your organisation face in serving micro and small enterprises?	

Annex 5 – Interview Protocol – Independent Researcher

1. What academic interests do you have in the micro and small enterprises sector?
2. How would describe the nature of businesses activities undertaken in the micro and small enterprises sector?
3. What are some of the impediments to the development of micro and small enterprises in Kenya?
4. Currently what are the key development issues of concern in the micro and small enterprises sector?
5. A lot of microfinance institutions have been set up to offer credit to micro and small enterprises; in your opinion do you think this form of credit is helping micro and small enterprises?
6. What would you want to see microfinance institutions doing that they are not currently doing?
7. Business development services agents claim to offer various forms of human capital development, in your opinion what skills are needed most by micro and small enterprises?
8. What advice would you give to the business development services agents targeting the micro and small enterprise sector?
9. From a cost- benefit perspective, who seems to be gaining more from the current state of affairs between micro and small enterprise owner-managers, microfinance institutions and business development services providers?
10. In the medium term, how do you see the future of the micro and small enterprises sector in Kenya?
11. What issues should further research in this field focus on?