The effect of micro-finance institutions on the performance of small and medium-sized enterprises in the Democratic Republic of Congo

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ABSTRACT

Micro-finance institutions are leading a revolution in the financial sector, particularly in banking. This provides a renewed focus on the way financial credit is provided to the marginalised society of the developing countries. In the Democratic Republic of Congo, small and medium enterprises constitute almost 80% of the entrepreneurial population. There is therefore, considerable urgency to advance the performance and competitiveness of these small and medium enterprises.

The aim of this study is to establish the effect of micro-finance institutions, on the performance of small and medium enterprises in the Democratic Republic of Congo. Literature reviewed for this study provided insights into the effects of micro-finance institutions on the performance of small and medium enterprises that accessed micro-loans. This study comprises of 77 small and medium entrepreneurs that participated in the empirical research.

The performance of small and medium enterprises was assessed through the use of a questionnaire. The questionnaire consisted of statements on socio-demographics, the functioning of micro-finance institutions and the performance of small and medium enterprises.

The study revealed that the largest group of respondents were male entrepreneurs, married, in the age group category of 30 to 50 years, have a household size of 1 to 5 people and have 1 to 5 years of experience in business.

Entrepreneurs mostly utilized financial services such as saving accounts, money transfers and training and technology. Furthermore consulting services in the areas of leadership finance and operations were mainly received from micro-finance institutions. The study revealed that micro-finance institutions principally play the role of facilitator of growth, tool for social change, provider of banking systems and instrument for empowerment to SMEs.

The two sources of financing utilized mostly by small and medium enterprises were loans from micro-finance institutions and from commercial banks. The borrowed finance was used principally to start a new business, expand an existing business and for working capital. The amounts of money borrowed from micro- loans were as follow: 5 000,00 (US $) or less, between 6 000 and 10 000,00 (US $) and 11 000,00 to 15 000, 00 (US $) The interest rates paid were from 11% to 20%, 21% to 30% and 51% and above. The collateral provided was in the form of physical assets such as a car or a house.

The results of the mean score factor indicated that on average, responses for questions 14 to 19 were above 2.5 on the scale of 1 to 4. The mean score above 2.5 was the indication that respondents agreed to a larger extend to these statements.

This leads to the conclusion that overall, the effect of micro-finance institutions on the performance small and medium enterprises in the Democratic Republic of Congo was positive, as proved by the mean score factor.

Keywords: effect, impact, micro-finance institution, small and medium enterprise, Democratic Republic of Congo

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CHAPTER 1

INTRODUCTION AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Micro-finance institutions (MFIs) are being recognised as one of the financial tools that alleviate poverty, provide solutions to unemployment and stimulate economic growth in developing countries. Small and medium entrepreneurs in these countries are most of the time confronted with various challenges. One of those challenges is access to micro-credit or micro-loans which is considered as an important part of doing business.

According to Peprah and Muruka (2010:52), Brune (2009:6), Lindsay (2010:3), and Nwigwe *et al*. (2012:34) micro-finance institutions aim at reducing poverty worldwide among financially excluded people. Suberu *et al*. (2011:253) stated that micro-finance institutions have a grass roots orientation and greater expertise in financing smaller enterprises.

Perkowski (2012:1) said that access to finance is a challenge for businesses in any country. Entrepreneurs in developing countries require micro-credit and other services from micro-finance institutions for several reasons; to speedily expand their operations, for start-up capital, for working capital or for other purposes. Providing micro-credit and other services to small and medium enterprises has traditionally been challenging for micro-finance institutions. On the one hand, the challenge may be related to a lack or non-existence of financial history and the inability to provide required collateral among small and medium enterprises. On the other hand the absence of credit bureau data and regulatory bodies at national level is challenging. In addition, Suberu *et al.* (2011:254) stated that a shortage of both debt and equity financing is one of the major barriers to rapid development of the small and medium enterprises.

Ullo *et al.* (2009:33) referred to the study conducted by the Investment Climate assessment, which concluded that access to finance is the second most constrictive challenge for doing business in the Democratic Republic of Congo (DRC). In an attempt to address this challenge, the micro-finance institutions in the DRC have stepped in to provide micro-credit and related services to Small and medium enterprises and people who required assistance.

These attempts by micro-finance institutions are in line with the Millennium Development Goals centered on poverty eradication. These goals include among others, poverty eradication, universal primary education, gender equality and empowerment of women (Babandi, 2011:126). Mutengezanwa *et al.* (2011:162) hoped that micro-finance institutions will assist in the achievement of these goals, as they are a viable tool used in the eradication of poverty thus improving social and economic welfare of the people.

Advocates of micro-finance institutions believe that micro-credit and related services are essential tools to enhance competitiveness and the growth potential of small and medium enterprises in developing countries such as the DRC. In light of the above, it can be argued that the services provided by micro-finance institutions should have an impact by creating wealth, assets, food security and reduced variance in income. This research seeks to establish whether micro-finance institutions have had an effect on the performance of small and medium enterprises in the DRC.

1.2 PROBLEM STATEMENT

Micro-lenders, banks and other lending institutions provide services that allow people and small and medium enterprises to borrow, save and invest, which further support and strengthen economic activity. Within emerging markets, the function of micro-finance institutions is to provide credit and financial services such as saving, insurance and other necessary amenities that develop income-earning in small and medium enterprises (Simeyo *et al.* 2011: 8291).

Emerging markets recognise small and medium enterprises as key drivers of growth and their contribution to the economy is believed to be significant. Many small business owners in developing countries such as the DRC maintain that the aspects that constrain business growth are the absence of finance credit. Consequently, micro-finance institutions fill an important gap within the financial services industry by offering micro-loans and other services to individuals as well as small and medium enterprises (Suberu *et al.* 2011:253).

These individuals as well as the small and medium enterprises were unable to access loans and services from commercial banks or formal financial institutions. These latter institutions failed to some extent to address the credit need of the real sector of the economy of the developing countries (Suberu *et al.* 2011:253). The Democratic Republic of Congo has reformed its financial sector in order to provide financial institutions and businesses with an environment in which they can achieve desirable growth (Opportunity International, 2011:1).

In pursuit of growth, the Democratic Republic of Congo Government, with the assistance of various role players developed policies to make access to finance and other financial services easier (Ullo *et al.* 2009:33). This was done in chase of an increased gross domestic product for the country.

AThe adoption of the new policies has resulted in an influx of local and international micro-finance institutions that lent to small and medium enterprises (Ullo *et al.* 2009:33). Despite this sudden increase of micro-finance institutions, one could not, with confidence, point out signs of business growth among small and medium enterprises. They still struggled and operated in an informal sector.

On the one hand, while these institutions have lent and provided services to small and medium enterprises, the effect of these loans and services to small and medium enterprises could not be argued without an empirical study. On the other hand, if the effect of micro-finance institutions on the performance of small and medium enterprises was visible in the Democratic Republic of Congo, why was the number of small and medium enterprises served by these institutions so insignificant in relationship to the vast need?

In spite of the emphasis on the role of micro-finance institutions, Olu (2009: 537) revealed that the empirical evidence emerging from various studies about the effect of micro-finance on entrepreneurial development have so far yielded mixed results that are inconclusive and contradictory. Some of the failures are attributed to high costs (high interest rates) in servicing loans to compensate for the risks (Simeyo *et al.* 2011: 8291; Lindsay, 2010:14).

In a study conducted in Kenya among youth entrepreneurs, Simeyo *et al.* (2011: 8291) found that micro-entrepreneurs who secured funds from micro-finance institutions spent the bulk of their returns on their investments in paying off the cost of the capital, thus leaving them with none or little savings for reinvestment.

Although it is believed that micro-finance has a positive effect, it is also clear that there are negative side effects (Kiweu, 2011:88). Overall, the effect of micro-finance institutions on small and medium enterprises can be positive or negative (Simeyo *et al.* (2011: 8292). Furthermore, the impact of micro-finance on small and medium enterprises has not received adequate empirical research attention in the DRC.

Ullo *et al.* (2009:34) and Molly, (2012:13) indicated that the non-existence of financial institutions in most parts of the country poses a challenge to small and medium enterprises, who envisage access to financial services. The percentage of small and medium enterprises and people that access micro-loans to develop small and medium enterprises in the DRC is relatively insignificant in relationship to the vast need. Overall, at a national level, lack of access to credit appears to be huge problem.

However, micro-finance institutions who gain access to the media claim that the micro-loans or micro-credit and other services they provide have made significant impact in the lives of beneficiaries. Such claims were made on a variety of media such as radio, written- and electronic publications, where inserts of stories of success as a result of micro-finance institution interventions were marketed. These opinion-based stories need to be scientifically tested by means of empirical research.

The reformation of policies to foster business growth indicates acknowledgement that the economic success in the DRC depends largely on the growth of small and medium enterprises. The DRC is a country where public enterprises are inefficient; therefore, private-owned businesses, mainly small and medium enterprises contribute greatly to the total value added. Brasey (2012:2) said that the Democratic Republic of Congo's private-owned businesses made up almost 80 % of the total capably employed.

The following research questions were formulated based the above-mentioned description of the research problem. The research questions were clustered in three categories:

- Firstly, what is the socio-demographic profile of small and medium entrepreneurs in the Democratic Republic of Congo?
- Secondly, what is the function of micro-finance institutions in the Democratic Republic of Congo? This led to additional questions such as:
    - What are the services offered by micro-finance institutions, utilized by small and medium enterprises?
    - What are the consulting services that small and medium enterprises receive from micro-finance institutions?
    - Which roles do micro-finance institutions play in the performance of small and medium enterprises?
    - What are the most recent sources of micro-credit that small and medium enterprises utilize to acquire micro-loans?

- What are the reasons for small and medium enterprises to acquire micro loans?
- Which amounts of finance do small and medium enterprises receive?
- What are the interest rates charged?
- What collateral is required for micro-loans?
- What are the constraints that face small and medium enterprises in obtaining micro-loans?
- What are the factors that influence the choice of a micro-finance institution?

- Thirdly, what is the performance of small and medium enterprises in the Democratic Republic of Congo? This led to more questions:
    - What are the changes that small and medium enterprises experience as businesses after contracting micro-loans and other services?
    - What are the changes that entrepreneurs experience as individuals after contracting micro-loans and other services?
    - What are the factors that positively contribute to the performance of the businesses?
    - What are the factors that contribute to a decline in the performance of the businesses?

Unless a study of this nature is carried out, it is difficult to empirically establish the effect or impact of micro-finance institutions on small and medium enterprises in the Democratic Republic of Congo. Otherwise, the effect of micro-finance institutions on small and medium enterprises in the Democratic Republic of Congo remains opinion based, as claimed by micro-finance institutions. For that reason, this study was intended at collecting applicable information to establish if micro-credit and other services provided by micro-finance institutions to small and medium enterprises improves or worsens their performance.

The following research objectives endeavoured to answer the research questions above.

1.3 RESEARCH OBJECTIVES

1.3.1 General objective

The general objective of this study is to investigate the effect of micro-finance institutions on the performance of small and medium enterprises in the Democratic Republic of Congo.

1.3.2 Specific objectives

The specific objectives are to:

- Firstly, gain insights into the effect of micro-finance institutions on the performance of small and medium enterprises;
- Secondly, establish the socio-demographic profile of small and medium entrepreneurs who contracts micro-credit;
- Thirdly, assess the functioning of micro-finance institutions in the Democratic Republic of Congo. The assessment of the functioning of micro-finance institutions is to:
    - Asses the services offered by micro-finance institutions that small and medium enterprises utilize;
    - Establish the consulting services that small and medium enterprises receive from micro-finance institutions;
    - Assess the roles that micro-finance institutions play to small and medium enterprises;

- Establish the most recent sources of micro credit that small and medium enterprises utilize to acquire microloans;
- Establish the reasons why small and medium enterprises require micro loans;
- Determine the amounts of finance which small and medium enterprises receive;
- Establish what interest rates are charged;
- Determine the collateral required for a micro-loan;
- Ascertain the constraints that affect small and medium enterprises in obtaining micro-loans;
- Establish the factors that influence the choice of micro finance institutions;

- Fourthly, assess the performance of small and medium enterprises. The performance components are:
    - Identify the changes that small and medium enterprises experienced as businesses after contracting micro-loans and other services;
    - Establish the changes that entrepreneurs experienced as individuals after contracting micro-loans and other services;
    - Ascertain the factors which positively influenced the performance of the businesses; and
    - Determine the factors that contributed to a decline of performance in the businesses.

1.4 SCOPE OF THE STUDY

The scope of this study is constituted by the field, geographical location and the profile of the country.

1.4.1 Field of the study.

The study falls in the field of finance with specific reference to micro-finance.

1.4.2 DRC profile and geographical demarcation

This research focused on small and medium enterprises in the DRC. The DRC is situated in the centre of Africa. Its nine neighbouring countries are Angola, Republic of Congo, Central African Republic, South Sudan, Uganda, Rwanda, Burundi, Tanzania and Zambia (British Broadcasting Corporation, 2012:1). The name of the country has been changed several times. After independence it was known as the Democratic Republic of Congo.

The name DRC was changed to Zaire and later changed back to the DRC. Currently, the Democratic Republic of Congo has eleven provinces and it has been proposed to subdivide bigger provinces. The capital city is Kinshasa where the central Government is based. Each province has a provincial capital and runs its own administration.

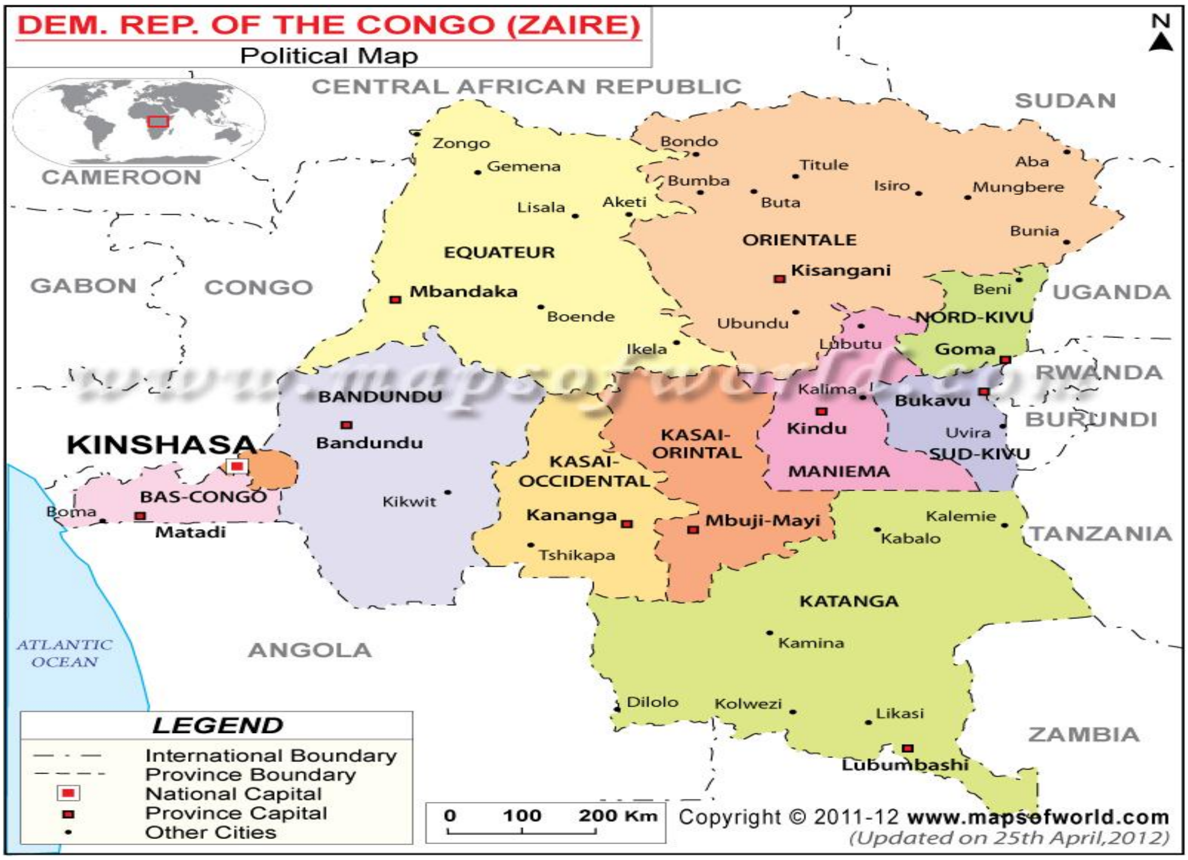
The country is well known on the one hand for its abundant agricultural and mineral resources. On the other hand it is known for civil wars lead by rebel militias, corruption, maladministration, weak infrastructure and other ill elements that characterise the African continent, such as weak democratic institutions amongst others (British Broadcasting Corporation, 2012:1).

The Democratic Republic of Congo covers 2,344,858 square kilometres of land, making it the 12th largest country in the world which is equivalent to two-thirds of Western Europe (British Broadcasting Corporation, 2012:1). The total population is estimated around seventy (70) million inhabitants (no official census has taken place for many years), 80% of which lives on less than US$ 1 a day (Opportunity International 2011:1). The DRC's poverty reduction and development strategies emphasise support for the private sector and in particular micro- and small enterprises. With its immense potential, the DRC can become one of the drivers of African growth, if a conducive business climate is practised.

Since its independence in 1960 from Belgium, the DRC experienced sporadic peace during the Presidency of Joseph Mobutu until 1997. Thereafter it has been characterised by civil wars until today. In 1997 Rwanda and Uganda, with the backing of some Western Countries invaded the DRC and installed Laurent Kabila as President. He renamed the country the DRC. Laurent Kabila was assassinated in 2001 and his son Joseph Kabila took over after him as President. The DRC's troubles continued with Rwanda and Uganda providing support to various rebel groups.

However, the country is making inroads into the global arena in many ways, through democratisation of different institutions and improvement in different spheres of the economy. The collapse of the economy, for many years created Congolese entrepreneurs. Many in Congo survive by means of personal initiatives to earn a living for their families. Economic activities are wide ranging in the DRC, with much emphasis on the informal sector. Currently, only 1% of the Democratic Republic of Congo's citizens have access to basic financial services (Opportunity International 2011:1). Figure 1.1 is a map of the Democratic Republic of Congo.

Figure 1.1: Map of Democratic Republic of Congo.



Source: www.mapsofworld.com

1.5 RESEARCH METHOD

In a bid to accomplish the set of specific objectives, this research was conducted by utilizing two methods namely, a literature review and an empirical study.

1.5.1 Phase 1: Literature review

Literature reviews regarding the effects of micro-finance institutions on businesses were sourced. These sources included:

- Textbooks on micro-finance;

- Published peer reviews and academic journals on micro-finance such as: Harvard Business Review, African Journal of Business Management, Journal of Research in International Business Management, The Journal of Business and Enterprise Development, Australian Journal of Business and Management Research;
- Publications and internet searches: United Nations Development Fund (UNDP), Reserve Bank of Congo, World Bank, International Monetary Fund (IMF), Master and doctoral theses; and
- Newspapers such as Le Potentiel, L'Observateur, Uhuru, La Colombe, Elima, and others.

1.5.2 Phase 2: Empirical study

The empirical study consisted of the research design, participant- and sample data collection, statistical analysis and ethical considerations when selecting respondents from small and medium enterprises.

1.5.2.1 Research design

The aim of the research design was to facilitate the collection of information and data without disruption during the study. This study employed a quantitative method to examine the effect or performance of small and medium enterprises. The empirical study used one source of information mainly: a structured questionnaire to gather statistical data or information. The questionnaire consisted of three sections (see Appendix A: Questionnaire for empirical study).

Section A gathered general data from respondents regarding their socio-demographic profiles. Respondents were requested to answer questions on gender, age group, marital status, household size and experience in business. Respondents were required to select only one appropriate answer by marking an X in the relevant box for each statement.

Section B assessed the functioning of micro-finance institutions. Participants responded by answering either yes or no to questions six, seven and eight in the questionnaire, marking an X in the relevant box for each statement. Questions nine to thirteen provided respondents with the option to select an answer by marking an X in the appropriate section. Questions fourteen and fifteen allowed respondents to express the extent to which they agreed with the claim of the statement. In total four options were provided on a Likert scale.

Section C measured the performance of small and medium enterprises. It provided respondents with questions to establish the effect of micro-finance institutions on the performance of small and medium enterprises. This section comprised of questions sixteen, seventeen, eighteen and nineteen. Questions in this section followed the same principles as indicated in section B for questions fourteen and fifteen.

1.5.2.2 Participants and sampling

According to Onwuegbuzie and Collins (2007: 288) the size of the sample is influenced primarily by the research objectives, research questions, and, subsequently, the research design. The target participants for this study were small and medium enterprises (beneficiaries of micro-finance loans). Due to the study emphasis on the effect of micro-finance on small and medium enterprises, participants were selected from those who received funds for business purposes. In total seventy-seven (77) entrepreneurs who made use of micro-finance institutions in the Oriental Province area participated in the study.

The study employed the purposive sampling technique to overcome significant challenges for attaining an analysable sample. Extreme (or deviant) case sampling of purposive sampling was used because this research focused on notable outcomes that typically highlighted, the negative or positive (failures or successes) effects of micro-finance institutions on small and medium enterprises in the DRC.

The choice of purposive sampling was influenced by the fact that the population was described as hidden, because a complete sampling frame could not be constructed due the absence of a central database of beneficiaries of micro-loans and other services in the area. Even though random sampling could not be done, the effects of micro-finance lenders on small and medium enterprises needed to be researched using non-random sampling techniques.

1.5.2.3 Data collection

Participants were requested to complete the questionnaire that was personally distributed during the small and medium enterprise forum. The rationale of the study was explained to the participants and they were assured that information they provided would be treated with confidentiality. Permission was obtained from the respondents to participate in the study. Each question was thoroughly explained due to the fact that some respondents have a low literacy level. After completion, questionnaires were collected from the respondents on the same day. In total 80 questionnaires were distributed, but only 77 were collected, which resulted in 96.25% response rate**.**

1.5.2.4 Statistical analysis

Data collected was analysed using the Statistical Consultation Services of the North-West University. Statistical analysis provided insights to determine the performance of small and medium enterprises. These outputs served to draw conclusions and provide recommendations on the effect of micro-finance institutions on the performance of small and medium enterprises in the DRC.

1.5.2.5 Limitation of the study

This study was done from the perspective of small and medium enterprises to assess the impact of the micro-finance on their businesses.

- The DRC is a vast country with an inadequate transportation system, which makes it difficult to reach respondents;
- Travelling costs to reach targeted small and medium enterprises for the completion of the questionnaire posed a challenge;
- Some of the small and medium entrepreneurs were only semi-literate and were unable to complete the questionnaire on their own. They had to be assisted with the completion of their questionnaires;
- Reaching respondents through electronic means were not an option, due to old technology or the absence thereof among small and medium enterprises. The questionnaire was handed only to small and medium enterprises that were accessible to the researcher during the small and medium enterprise forum;
- The sample size might not be representative of the entire DRC. Even so, the quality of the responses was satisfactory;
- Limited information is available on the effect of micro-finance institutions on SMEs in the DRC;

1.5.2.6 Ethical consideration

Information and data provided by participants was used for research purposes. Assurance was given to participants that the information they provided would be treated as confidential and that the outcome will be used for research purposes only.

1.6 CHAPTER DIVISION.

Figure 1.2 summarises the chapters' layout. This was the guideline the research followed during the course of the investigation.

Figure 1.2: Chapter layout of the study

Chapter	**Content**
Chapter 1: Introduction and scope of the study	Chapter 1 consists of the opening and the scope of the study which provides the problem statement, research objectives, scope of the study and research method.
Chapter 2: Literature review	Chapter 2 focuses on the literature review of the study which provides information on the origin and spread of micro-finance/ the function of micro-finance institutions. Focus is also placed on commercial banks in the micro-finance market. Different practitioners of micro-finance are described. Furthermore, findings of the effects of micro-finance institutions in different countries and in context of the Democratic Republic of Congo are addressed in the literature review.
Chapter 3: Results and discussions of the empirical study	Chapter 3 of the study contains the results and the discussions of the empirical investigation. It enfolds data gathering which includes the development and construction of the questionnaire as well as the data collection of the employed method in the research.
Chapter 4: Conclusion and recommendations	Chapter 4 ponders on conclusions, recommendations, attainment of the study objectives and concludes with suggestions for future research.

1.7 CHAPTER SUMMARY

This chapter begins with an introduction, which provides the background and scope of the study on the effects of micro-finance institutions on the performance of small and medium enterprises in the DRC. The introduction consists of an opportunity that micro-finance institutions fulfil in developing countries. It is about the leverage of entrepreneurial drive on the emerging market and the role micro-finance institutions plays in many spheres of small and medium enterprises. It mainly draws from research on micro-finance institutions in other parts of the world. This previous research has indicated that the dual effects of micro-finance on small and medium enterprises have either improved or worsened business performance.

The problem statement indicates that some small and medium enterprises in the DRC are making use of services provided by micro-finance institutions, while others do not even attempt to approach micro-finance institutions, and continues their work in the informal sector. However, a study has not yet been carried out to determine the effect of micro-finance on small and medium enterprise performance in the DRC. Therefore the effects of micro-finance institutions on small and medium enterprises require investigation.

The study set out a general objective: The investigation of the effect of micro-finance institutions on the performance of small and medium enterprises. Additional specific objectives are pursued in section 1.3.2 in line with the research questions stated in section 1.2 of the research problem.

The study employs two methods, namely a literature review and an empirical study. The literature review consists of approved publications on the subject of the effect of micro-finance on small and medium enterprises. The empirical study briefly describes the research design, participants and samples, data collection, statistical analysis, limitations and ethical considerations of the field study.

The following chapter consists of the literature review. This literature review was derived from approved publications. The literature review was undertaken to highlight different views on the origin, definition, function, commercial banks' provisions of micro-credit, the future of micro-finance and empirical studies carried out elsewhere in different parts of the world.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The effect of micro-finance throughout the world is well recognised and documented. According to Kiweu (2011:88) the literature on micro-finance is abundant, but the majority of the studies tend to be descriptive with little evidence and tentative research findings due to inadequate data. Academic analysis of micro-lending has been sporadic, as most developmental research in the period from the 1950s through the 1990s concentrated on subsidised credit, with little to no repayment incentives (Cooke, 2011:70).

Nevertheless, in the last few decades, it has been acknowledged that some studies have begun to offer in-depth analysis on the topic. Dimensions that are based on an empirical approach are being investigated with increased public outline on this particular poverty reducing tool. These studies have contributed to a better understanding of issues and emerging trends in the field of micro-finance (Kiweu, 2011:88).

2.2 THE DEFINITION OF MICRO-FINANCE

There are numerous definitions of micro-finance, some of which evolved using the new delivery methodologies developed during the last twenty five years, they were well summarised by Roodman (2010:1):

- Micro-finance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking- and related services;
- Micro-finance refers to institutions that specialise in making very small loans to very poor people in developing countries. Instead of using collateral to

assure repayment, these lenders harness social pressure within the borrower's community;

- The provision of small loans (micro-credit) to poor people to help them engage in productive activities or grow very small businesses. The term may also include a broader range of services, including credit, savings, and insurance.

Rouse (2012:1) provided a contemporary and all-encompassing definition that micro finance is the provision of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty. The Consultative Group to Assist the Poor (2013:1) presented a limited definition of micro finance as financial services for poor and low-income clients offered by different types of service providers.

Roodman (2010:5) again contributed to the definition of micro finance by arguing that micro-finance is the business-like provision of financial services to the poor, and provision of financial services to the poor, in ways that depend on outsiders, especially socially motivated ones, for finance and advice.

This study used micro-finance institutions narrowly, referring to Governmental and non-Governmental organizations, non-bank financial institutions, and commercial banks that specialise in micro-finance as defined above, as well as additional micro finance programs.

2.3 THE ORIGIN AND SPREAD OF MICRO-FINANCE

People, communities and businesses have been borrowing, lending and saving since trade and other forms of transactions existed. Micro-finance practices have taken place within different communities using their own systems and methods, with or without external support or assets (Seibel, 2007:13). The sector is new in that it has only recently drawn attention as a response to the failure or indifference of commercial banks (formal financial system) to serve the needs of low-income households and small and medium enterprises.

Although micro-finance has gained popularity in recent years the concept is ancient, with institutional origins for instance in European countries in the 18th and 19th century, Nigeria in the 16th century and India around 1000 BC (Seibel, 2007:13). Therefore, the concept of micro-finance can be both old and new.

The African concept of micro-finance has long been practised in many forms. The practice of lending in the agricultural sector has always been common among families or villagers (Babandi, 2011:127). They have been lending fields or seed to other members for farming with the expectation of a harvest return. This form of micro-finance practice has also been exercised for animal procreation. A community member lends an animal to another member for procreation with the expectation of gaining more animals in return (Engel & Lutz, 2013:35). Depending on the agreed terms and conditions, the party that borrows returns to the lender the initial (capital) and the expected interest (mainly in the same nature that was borrowed) (Engel & Lutz, 2013:35).

This form of financing activities is linked to capital repayment plus interest. In some cases there is no obligation imposed by the lending party on the receiving person or community. This type of lending is prevalent among close family members or friends to help each other to overcome poverty.

Seibel (2007:12) states that the term micro-finance was first introduced in 1990 with the specific connotation of encompassing micro-credit and micro-savings as well as other financial services, in response to Vogel's claim that savings were the forgotten half of rural finance.

Haque and Harbin (2009:1) asserted that micro-credit was unheard of until Dr. Muhammad Yunus, an American educated economics Professor, began his Micro-Credit Scheme as a poverty busting tool with a deep conviction from the beginning that it could serve to alleviate poverty. Since the mid-1970s, there has been an explosion of activity in the micro-finance sector and several models have been developed, various services have been pioneered, and many international organisations have become involved (Maksudova, 2010:1; Roy, 2003:2).

Less known but equally important, is the demand for saving and financial transaction opportunities for individuals and businesses in developing countries (Roy 2003:2). Entrepreneurs and individuals in these countries are looking for a convenient way to make safe deposits and transactions with their money (Roy 2003:3). It is acknowledged that these deposits can fund micro-credit activities. This is particularly true in countries where banking systems have collapsed or became non-existent such as in the DRC, where the banking system is not providing services to the majority of the population (Engel & Lutz, 2013:35).

Through the provision of micro-loans to entrepreneurs and small businesses, the Grameen Bank has empowered the poor, giving them the resources to generate additional income, stimulate value creation and in turn, development (Roy 2003:2). Therefore, the micro-finance model, pioneered by the Grameen Bank in Bangladesh (Roy 2003:2) could become an instrument to addresses this impasse for the Democratic Republic of Congo. Likewise, savings based micro-finance institutions have been found to be better positioned to endure periods of financial downturn. Savings based on micro-finance institution principles reinforced funds through local deposits. Furthermore, local funding is generally more stable and carries no exchange rate risk.

Micro-finance institutions, as an instrument for stimulating income generating activities, were introduced by NGOs in the 1970s and have traditionally offered supply-driven micro-credit to subsistence farmers in rural areas, and focused on poverty reduction objectives (Seibel 2007: 12).

Haan and Lakwob (2010:351) indicated that the 1990s saw the expansion of micro-finance as both a replacement of and a complementary service to commercial banking. This phenomenon was attributed to micro-finance institutions' typical characteristics such as proximity to customers, speed and flexibility of service, hidden transaction costs, diversity of services and products, as well as mutual reciprocity.

2.4 THE FUNCTIONS OF MICRO-FINANCE INSTITUTIONS

Micro-finance institutions provide many functions to those in need of financial and related services in many parts of the world. They provide capital to entrepreneurs, giving them the means to snatch an opportunity to start a business, expand an existing business or to use as working capital, which may lead to improve profit margins as well as their lives.

Seibel (2007:13) referred to micro-finance institutions as a system of financial intermediation between micro-savers and micro-borrowers; it may further include micro-insurance and other financial services such as money transfers. Jegatheesan *et al.* (2011:300) pointed out that micro-finance provides different functions to their clients; supplying access to various financial services such as credit, savings, micro-insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services.

Furthermore, micro-finance institutions have been identified as being vitally important to the growth of small and medium enterprises in developing economies (Roy 2003:2). It is believed that it contributes to job creation, innovation and its welfare effects are visible in different countries.

The micro-finance revolution has taken hold across developing economies and has for ever impacted the world of business as described in section 2.7 the performance of micro-finance in selected countries. It is argued in the Democratic Republic of

Congo that micro-finance institutions make indispensable contributions to the market economies (Opportunity International 2011:1).

Firstly, they are an integral part of the reformed process that pervades and defines financial institutions. Micro-finance institutions play a crucial role in the financial innovations that lead to technological change and productivity growth. Undeniably, micro-finance institutions are agents of change, because they are changing the financial sector.

Secondly, micro-finance institutions provide essential mechanisms by which many entrepreneurs enter the economic mainstream. Micro-finance institutions make it possible for entrepreneurs to access the quest of their economic success. In this evolutionary development, micro-finance institutions play a crucial and indispensable part in providing the "collective glue" that binds together both entrepreneurs and the financial institution's activities (Kessy & Tembu, 2010: 109). After the study of the literature, the following functions are summarised in figure 2.1.

Figure 2.1: The different functions of micro-finance institutions

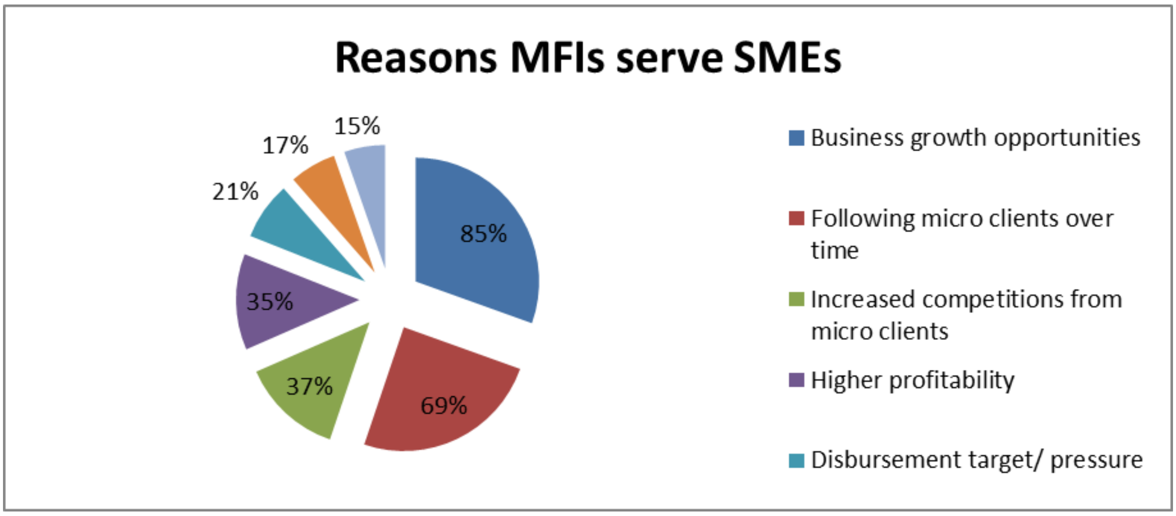
Function	**Description**
Micro-credit or micro-loans	An amount of money given to the borrower with the option of future repayment.
Saving	Deposits made to be used in future, in exchange for a series of savings made.
Insurance	Insurance involves a contribution made into a pool, to spread the risk between individuals on the assumption that something may go wrong.
Pension	An amount of money deposited to benefit from at a specified and generally distant date in the future in exchange for a series of savings made.
Money transfers	Micro-finance institutions provide facilities to borrowers to transfer money to families, friends and make payments to small and medium enterprises, suppliers

	and other creditors.
Consulting services, including education.	In addition to lending money, micro-finance institutions also offer consulting services, including basic business education to loan beneficiaries on how to manage their finances and run a business efficiently.
Group lending.	Micro-finance institutions prefer their borrowers to create a group, so as to ensure timely repayments. Formation of groups act as support for each other and every member can guarantee the repayment of other members of the group. Through group lending, micro-finance institutions collect payments more efficiently and the group can offer support to the borrower that faces any challenge of repayment.
Empowerment.	Lending to the poor is definitely better for the right development of the community. They use the proceeds for educational purposes of the children or to purchase food for the family's survival. Apart from these, lending to the poor also resolves the problem of inequality that has been prevailing in our society for many years.
Technology.	Technology used by micro-finance institutions has assisted beneficiaries to be connected with the rest of the world. This is how micro-finance has played a vital role in connecting the world in pecuniary manner.

Source: Muntengezanwa *et al.* 2011.

The Consultative Group to Assist the Poor 's (2012:16) survey results contain seven reasons that attract micro-finance institutions to serve small and medium enterprises. Among those reasons, business growth opportunity topped with 85%, followed by follow micro-client all the time 69%. Increased competition among micro-clients and higher profitability ranged respectively within 35% and 37%. Disbursement target/pressure accounted for 21%, incentive from funders 17% and incentives from Governments 15%. This gives a clear indication that both the micro-finance institutions and borrowers are pursuing growth strategies. Reasons for micro-finance institutions to service small and medium enterprises could be influenced by the technical, economic, political and the social factors to combine traditional and modern micro-finance approaches. Figure 2.2 provides reasons micro-finance institutions served small and medium enterprises.

Figure 2.2: Reasons for MFIs to serve SMEs.



Source: The Consultative Group to Assist the Poor (2012:16)

During the past few years, micro-finance practices were increasingly being integrated as part of financial services offered by commercial banks in most developing countries that seek business growth. Commercial or traditional banks have also entered this market segment that used to be unattended by these institutions.

2.5 THE COMMERCIAL BANKS IN THE MICRO-FINANCE MARKET

Providing micro-credit to small and medium enterprises is no longer confined to Micro-finance institutions. Commercial banks are now competing with micro-lenders. Commercial banks have entered the micro-finance market in increasing numbers over the past years (Delfiner & Perón, 2007:9). This phenomenon is known as downscaling in the financial sector. Commercial banks are stimulated to downscale

due to various reasons. These motives are linked to the bank's quest for new markets or revenue generation and to the growth potential of small and medium enterprises, ignored for a long time.
Other reasons include growing competition in markets traditionally served by commercial banks and a declining customer base due to recession or economic downturn, which results in a decline in the bank's returns. This has encouraged the search for new market niches (Delfiner & Perón, 2007:9).

In most developing countries, like the DRC where institutional micro-finance is in an infant stage, and an unattended market segment exists; this market is viewed by commercial banks as an instant source of rapid growth and positive returns. Nevertheless, commercial banks' focal enticement in the micro-finance market is linked to the fact that profit in this segment is in line with the risks sustained (Kiweu, 2011: 100).

This new approach has made it possible for commercial banks to diversify their loan portfolio, with a particular focus on a segment formerly unattended (Kiweu, 2011: 99). Commercial banks increased their client base to include micro-credit borrowers. This new market has compelled commercial banks to expand their branch networks to accommodate new clients.

These commercial banks have adopted a number of strategies employed by micro-finance institutions, which set them apart from more traditional lending establishments: unsecured lending facilities, a simpler and more condensed application process, personal visits by bank staff to clients to avoid the branch application process, just a few days for application approval, and a high interest rate (Kiweu, 2011: 103).

The inclusion of micro-finance in the commercial banks' portfolio has assisted them to fulfil their corporate social responsibilities like caring for the most disadvantaged social sectors and improving their public image in general. Commercial banks' micro-loans to small and medium enterprises in developing countries have revolutionised the way finance is progressing in the largely informal business sector.

2.6 THE PRACTITIONERS IN THE MICRO-FINANCE MARKET

Seibel (2007:13) declared that micro-finance covers a wide array of micro-finance institutions. These include indigenous rotating savings, credit associations, self-help groups, financial cooperatives, rural banks, community banks, non-bank financial institutions which include credit non-Governmental organisations, all the way up to development banks and commercial banks. They may also comprise of moneylenders and private deposit collectors.

Over the years views on micro-finance institutions have been an issue of debate. Kiweu (2011:88) described two views on micro-finance institutions namely, the traditional and commercial. Advocates of the traditional view or poverty focused, believe that micro-finance is a social product and should not offer credit for profit basis. The base of their argument is that pioneer institutions in the sector were non-profit making, which were non-Governmental organisations with the aim of poverty alleviation (Kiweu, 2011:88-89).

The commercial view believes that micro-finance is like any commercial institution and profit should be pursued on its activities. This view has had the wrong connotation for micro-finance, and it indicates a mission flow in the motivation of those lending to the poor. Micro-finance now attracts large scale private investment through venture capital and other forms.

Molloy (2012:19) indicates that a number of financial organisations entered the micro-finance market with an economic motive and not a social one. They charged high interest rates to desperate customers seeking for a corridor out of poverty. The result has been a surge in micro-loan defaults.

Commercialisation gave rise to its own breed of "loan sharks". It has resulted in devastating effects on the communities that micro-finance was designed to help and has perpetuated indebtedness (Molloy, 2012:19). Organisations with social intent moved away entirely from the micro-finance concept in support of other approaches of economic development in developing countries. Figure 2.3 classifies practitioners of micro-finance.

Figure 2.3: Types of micro-finance institutions

Type	Nature of operations
Informal financial systems (Family, traditional savings and money lenders)	This system includes entities and individuals operating outside the domain of the financial system. It includes financing from family and friends and unregistered supplier credit. This is a high risk form of financing. Interest rates could be as high as more than 100 per cent and repayment terms are often quite flexible.
Semi-formal finance (Cooperative and village bank)	Semi-formal lending institutions, such as the cooperative or village bank are the dominant and sustainable traditional institutions that meet the financial and social needs of the poor. This is a dominant form of credit and savings in urban and rural areas and provides a lending option to small and medium enterprises or individual needs. Members are required to attend scheduled meetings and the group can be dissolved after each member has had a turn at borrowing.
NGOs (International and national aid programs and para-public organizations)	Many donors provide funds to NGO's for distribution to needy small and medium enterprises. Most of their programmes take the form of community lending and saving cooperatives, with high interest rates and inflexible repayment terms.
Micro-finance institutions - (Micro-credit, savings, insurance and money transfers)	The main objective of micro-finance institutions is the delivery of financial services (micro-loans, micro-savings, micro-insurance, money transfers, etc.) to a large number of productive but resource-poor people in rural and urban areas, including small and medium enterprises, in a cost effective and sustainable way. The

	interventions of the micro-finance institutions are intended to make a positive and measurable impact on the lives of the poor.
Commercial banks (Commercial banks and agricultural credit banks)	Commercial banks have a limited capacity to deal with small and medium enterprise financing and are not favourably disposed towards small loans. A very low proportion of informal business sector operators have access to these formal financial institutions.

Source: Jegatheesan *et al.* (2011:300).

2.7 THE PERFORMANCE OF MICRO-FINANCE IN SELECTED COUNTRIES

It has been documented that the effects or interventions of micro-finance institutions led to either a positive or a negative performance of small and medium enterprises. This provision of micro-credit and various services by micro-finance institutions to stimulate growth has produced mixed results.

Maksudova (2010:3) confirmed that less developed economies that further advance the impact of micro-finance as a non-traditional bank may be poisoning the economy. He further stated that micro-finance directly contributes to economic growth by improving the value of small entrepreneurship and businesses. It indirectly contributes to economic growth through interaction with the financial sector development, captured by improved access to finance (financial deepening) and the integration of households' financial needs.

A study done on the impact of training on the performance of small and medium enterprises served by micro-finance institutions in Tanzania, revealed that the output of enterprises that received training increased, compared to those who obtained micro-credit without training (Kessy & Tembu, 2010: 105). Similarly, Maksudova (2010:2) argued that the dynamic growth of micro-finance in recent decades, and especially amidst the global financial crisis, signals that alternative means of financing could play a significant role by filling the gaps in formal intermediation and also by contributing to the financial stability of a country.

Aroca and Hewings (2009: 109) analysed the Brazilian and Chilean banks and NGOs who accessed micro-credit programs. Using propensity score and matching techniques, they contrasted the average income of individuals who received micro-credit against the income of control groups, formed by respondents with similar descriptions. The two countries presented opposing results. The Brazilian result indicated a high positive impact of micro-credit programs, especially for those administered by banks. In contrast, the Chilean scenario presented a weaker substantiation for the micro-credit administered by banks. In support of the NGO-based programs, the evidence was negative on the average income for their clients.

Akingunola and Onayemi (2011:331) conducted a study among women in the Ogun and Oyo States of Nigeria and found that formal financial institutions may not really be discriminating against women; rather, they were unable to satisfy their credit needs because of the low income-yielding propensity of their businesses as well as the inability of these women's small and medium enterprises to provide acceptable collateral securities.

Nugroho's (2010:382) research in Indonesia established that informal micro-finance institutions such as moneylenders and cooperatives can minimise the default rate on small loans through maintaining close contact and friendships with their poor clients. The study also further found that access to micro-finance services contributed to the welfare of the poor.

Achoja (2011:275) carried out a study in the Delta State, Nigeria among the micro-finance user groups and found a recorded loan marketing efficiency of 80.20%. He recommended that micro-finance user groups should form linkage with financial institutions for the purpose of a credit mobilisation scheme.

Akram and Hussain (2011:90) conducted a study in the District Okara in Pakistan. Their findings were that micro-finance was efficiently serving the poor by increasing their income level. 85.40% of their respondents stated that their income level had increased after receiving micro-finance facilities and therefore improving their living standard.

Another study carried out by Durrani *et al.* (2011:138) in Pakistan revealed that access and efficient provision of micro-credit could enable the poor to smooth their consumption, better manage their risks, gradually build their assets, develop their micro-enterprises, enhance their income earning capacity, and enjoy an improved quality of life. It also indicated that with little effort, the performance of micro-finance institutions can be improved and these institutions can play their role better in poverty alleviation than usual.

Cooke (2011:70) analysed the different effects that micro-credit would have on producers of raw material, and second order producers that fashioned raw material into products. The conclusion of the study was that micro-lending has the potential to do harm to a developing marketplace, and micro-creditors must be cognisant of possible unintended consequences of their micro-loans. Even after paying back micro-loans, the micro-loan recipients were much better off than those who did not receive a micro-loan.

Qureshi *et al.* (2012:717) pointed out that micro-finance helps different categories of poor people and has significantly positive effects on the access to micro-credit. Results also show that there is improvement in the micro-finance sector over recent years in terms of investments, active borrowers, branches and personnel.

Mutengezanwa *et al.* (2011:161, 169) conducted a research focusing on the topic under discussion and discovered a positive relationship between micro-credit and the socio-economic lives of people. The study revealed that the activities of micro-finance institutions resulted in an increased social interaction and socio-economic sustainability. Micro-finance institutions assist micro-entrepreneurs to fund their projects, especially those who could not access micro-loans from traditional banks. Beneficiaries indicated that micro-finance institutions have a positive impact on the socio-economic lives of people.

Idolor and Eriki's (2012:51) findings revealed that micro-loans and advances from micro-finance banks had a significant impact on the education and life expectancy indexes. Micro-finance banks' asset base had a negative impact on the human development index and its components, while deposit liabilities of micro-finance banks also had a negative impact on the human development index and its components.

Ondoro and Omena (2012:32) conducted a study in Kenya and found that micro-finance had no significant relationship between micro-finance services savings or investment among the youth in the Migori. However, a positive effect was revealed of micro-finance services on financial management skills.

Maksudova (2010:16) established that there was evidence of robust contributions to micro-finance and it was positive only in less developed countries where formal financial intermediation is immature, leaving significant space for alternative means such as micro-finance. The positive impact, however, runs the risk to be eroded as middle income countries catch up with the developed world.

2.8 THE PERFORMANCE OF MICRO-FINANCE IN THE DEMOCRATIC REPUBLIC OF CONGO

The micro-finance sector in the Democratic Republic of Congo exists in different forms. Since the collapse of the banking system, micro-finance institutions operating both in the formal and informal sectors have become the main source of financial services for the country. Helmsmüller (2012:1) traced the origin of formal micro-finance since 1956 and observed its recent growth in serving a number of clients in the same manner that commercial banks do. Although a variety of micro-finance institutions exist to serve clients in different parts of the country, they hardly serve more than 100 000 clients, a small number compared to a population of more than 70 million people (Helmsmüller, 2012:1).

Different micro-finance institutions claim that their micro-credit and services are improving the lives of the Congolese people at the bottom of the economic pyramid. Although the effects of micro-finance institutions are numerous, areas where micro-finance institutions have impacted the community are educational; micro-finance loans that enabled clients to build schools and educate their children, farming in rural areas and many other untold stories (Opportunity International 2013:1).

There are numerous successful stories told by micro-finance institutions such as International-DRC, FINCA - DRC, ProCredit Bank- DRC, Hekima, PAIDEK, and many others, regarding the impact they have made in the lives of their clients (Marti, 2009:6). However, it should be noted that these effects of micro-finance institutions on the performance of small and medium enterprise performance in the Democratic Republic of Congo are opinion-based and have to be examined through empirical studies.

Micro-finance institutions in the Democratic Republic of Congo have been operating without a national body for a long time (Marti, 2009:3). In an effort to close the gap, the Central Bank of the Democratic Republic of Congo and the micro-finance institutions initiated a national association of micro-finance institutions (Helmsmüller, 2012:1). The main goal of the "Association Nationale des Institutions Micro Finance (ANIMF)" is to assist the Government to regulate the micro-finance industry with legal framework, procedures and codes of conduct in the Democratic Republic of Congo (Marti, 2009:3).

2.9 THE FUTURE PROSPECTS OF MICRO-CREDIT

Literature contains evidence that small and medium enterprises play critical roles in economic growth and reduced poverty in most developing countries. This growth and poverty alleviation have been linked to micro-credit and other financial services obtained from micro-finance institutions. These institutions grant credit to joint liable groups to develop small and medium enterprises and foster income generating activities. Numerous studies have demonstrated that access to financial services such as savings, micro-credit and insurance are critical in helping the poor build businesses to generate income, manage cash flow and protect against risk (Opportunity International, 2011:1).

While studying micro-finance, Shetty (2008:88) found that credit alone could not shift the burden of small and medium enterprises and could not make any difference to the lives of the poor. He suggested the need for a paradigm shift from the minimalist approach (the delivering of credit services to the poor either to level out consumption or for income generating activities) to a maximalist approach, or integrated approach (which comprises of both financial and non-financial services to the poor) in unleashing entrepreneurship (Shetty, 2008:90).

The minimalist approach was based on the argument that the missing part for enterprise growth in the midst of the poor was the accessibility of credit. Advocates of this approach believed that finance alone is in the centre of enterprise growth (Shetty, 2008:90). Minimalist tied the growth of small and medium enterprises to access to credit only and ignored other factors such as education, business risks and others.

It indicated that credit was more important in meeting the needs of the poor and income generating activities than any other. Consequently, many of the micro-finance institutions provided credit only to the poor with the expectation that it would take care of economic activity without taking into consideration other elements that have an impact on their clients.

The reality was entirely different as most of these institutions (minimalist) failed to pop-up income generating activities for their members (Shetty, 2008:89). He further spotted the important reason behind the failure and indicated that a supply of credit alone cannot bring any prominent change in the economic activities of the destitute.

Opportunity International (2011:1) denoted the absence of institutions that could provide a broad range of financial services on a sustainable basis. Shetty (2008:89) attributed failure of small and medium enterprises that obtained micro-credit and did not grow, to several years of deprivation of the basic economic resources and social services; and suggested the combination of both financial and non-financial services (integrated services) to bring them to the mainstream economy.

The maximalist or the integrated approach looked at a holistic way of small and medium enterprise growth and income generating activities among the poor. It is a combination of the three elements between financial intermediation, social intermediation and entrepreneurial services that micro-finance institutions have to offer their clients (Shetty, 2008:90). He mentioned few aspects such as financial intermediation consists of working capital, fixed asset loans, savings and insurance. Social intermediation services include enterprise development, leadership and different training. Entrepreneurial services embrace areas of production, marketing, trade and others.

Accordingly, the micro-finance institutions' transformation from the minimalist to maximalist approach requires a paradigm shift in micro-finance practices. Shetty (2008:91) indicated that some micro-finance institutions in rural areas of India reached incredible achievements in unleashing women entrepreneurship. He attributed these kinds of success stories to the active role of the integrated approach deployed by micro-finance institutions.

Padma *et al.* (2012:1) affirmed that the micro-finance industry is developing very rapidly and institutions are increasingly concerned with developing new products and services. This assertion confirmed Shetty's (2008:91) study which revealed that rural micro-finance institutions were highly efficient in transferring to their clients basic (consumption levelling) to business by offering training on production, marketing, accounting, leadership, and other.

Morvant-Roux (2008:10) glanced at the future survival of this industry and said that trying out new products and services requires micro-finance institutions to work collaboratively with a variety of role players and think in terms of synergy and alliances. Although the dynamics underlying the micro-finance institutions have shifted to a new phenomenon, associated risks need to be managed efficiently as the industry moves forward into these uncertain times.

2.10 CHAPTER SUMMARY

The literature review on chapter 2 traced the origin and the development of micro-finance institutions. The literature review pointed out that the concept of micro-finance is both old and new. Although the institutionalisation of micro-finance has received popularity in the last decade, this practice has existed for centuries.

Different views on micro-finance institutions were expressed. The minimalist approach states that credit was the factor that hampers economic growth among the poor. Provision of loans should result in addressing poverty alleviation. The maximalist approach advocates the provision of credit with additional financial services.

Literature revealed that credit alone was not sufficient to create an impact on the small and medium enterprises. Credit must be accompanied by other financial services to complement the micro-loans granted. This called on micro-finance institutions to adopt an integrated approach that includes other services such as training, operational management, leadership and skills development and human resources to create the desirable impact on small and medium enterprises.

The results of the empirical findings on the effect of micro-finance in different parts of the world divulged that most small and medium enterprises who received credit showed improvement in their businesses. Different researchers found that there was a relationship between micro-credit granted by micro-finance institutions and the growth recipients experienced. As eminent, depending on variables assessed, there was conflicting evidence from studies on the effect of micro-finance institution programmes across the globe.

Micro-finance is not just about micro-credit transactions as when it was first introduced. The new approach essentially integrated adequate and timely credit into larger developmental processes such as community organising, leadership training and entrepreneurship activities.

The core of micro-finance programmes go beyond mere access and distribution of money, to deeper issues of how money is utilized and invested by recipients. It helps in fostering and developing a micro community based environment where existing networks and interlinks are strengthened. It is important therefore to understand that micro-credit does not stand alone, but overlaps on existing developmental activities and their implementation.

In the following chapter, the empirical study scrutinised the performance of small and medium enterprises that contracted micro-loans and other services through micro-finance institutions in the DRC. The performance of the small and medium enterprises was assessed through the responses from the respondents in the questionnaire, and statistically analysed.

CHAPTER 3

THE EMPIRICAL STUDY AND RESULTS

3.1 INTRODUCTION

The focus of this chapter is on the methodological technique regarding data gathering and the results and discussions of the empirical study. The chapter relates to the problem statement and research objectives stated in chapter 1 section 1.2 and 1.3 respectively. The methodological technique consists of the development of the questionnaire and data collection. Results and discussions centre around section A, B and C of the questionnaire (see Appendix A: Empirical research questionnaire). The conclusion summarises findings of the results and discussions.

3.2 GATHERING OF DATA

This section describes the methodological activities and reflections in conducting and obtaining the analysable data used in the study. The gathering of data consisted of two steps. The first part consisted of construction of the questionnaire and the second part related to data collection.

3.2.1 Development and construction of the questionnaire

The first step in the gathering of data was the development and construction of the questionnaire. Questions and matters were derived from the literature review on the effects of micro-finance institutions on small and medium enterprises and the research problem. Matters of the same sort that required the same type of information were grouped together. This approach aimed at prompting information of a specific nature without delays. The questionnaire was constructed to investigate applicable types to the research questions and literature in the following analytical approach:

- **Section A: The socio-demographic profile of the respondents**
    - Gender;
    - Marital status;
    - Age;
    - Household size (people);
    - Experience in business;

- **Section B: The functioning of micro-finance institutions**
    - Utilization of services offered by MFIs;
    - Areas of consulting received from MFIs;
    - Roles MFIs played;
    - Most recent micro-credit utilized;
    - Reasons for acquiring micro-loans;
    - Financing amounts received;
    - Interest rates charged;
    - Collateral required;
    - Constraints in obtaining micro-loans;
    - Factors that influence the choice of MFIs;

- **Section C: The Performance of small and medium enterprises**
    - Changes experienced in the performance of small and medium enterprises after contracting micro-loans and other services.
    - Transformations entrepreneurs experienced as a result of the changes in performance experienced by small and medium enterprises.
    - Factors positively contributing to the performance of small and medium enterprises.
    - Factors negatively contributing to the performance of small and medium enterprises.

The questionnaire called for the research partakers to indicate the applicable response by marking the appropriate box with an X. Section A in the questionnaire required that respondents could mark only one block where suitable. Section B contains questions where they could indicate their opinions with yes or no for each statement. In this section, respondents were required to answer questions by marking the numeric applicable option with an X in the appropriate box. The last part of this section used a four point scale to measure responses such as “not at all, to a small degree, to a moderate degree and to a large degree”. The four point Likert scale measured responses in the last part of section B and C of the questionnaire.

3.2.2 Data collection

The questionnaire was printed and distributed to small and medium entrepreneurs in the town of Kisangani, Oriental Province, Democratic Republic of Congo using the purposive sampling method.

The study used the purposive sampling method to collect data. Purposive sampling, also known as judgemental, selective or subjective sampling, involves a non-probability sampling technique. This sampling technique relies on the researcher’s judgement when selecting the respondents that are to be studied. Extreme (or deviant) case sampling of purposive sampling was appropriate in this context of the study because it focused on notable outcomes that typically highlight, negative or positive (failures or successes) of the effect of micro-finance institutions on small and medium enterprises in the DRC.

The choice of purposive sampling in this study was mainly influenced by the absence of a database which contained data of beneficiaries of micro-loans and other services in the area. Consequently, the population was described as hidden because a complete sampling frame could not be constructed, using random sampling techniques. Even though random sampling could not be done, effects made by micro-finance lenders on small and medium enterprises needed to be researched using non-random sampling techniques proved to be scientifically acceptable.

In total seventy seven (77) entrepreneurs who accessed micro-loans responded to the questionnaire. The procedure followed to distribute the questionnaires was to ask for a time slot during the small scale mining forum as stated in section 1.5.2. The forum allocated one and half hour for the research questionnaire. The researcher used the allocated time to guide respondents to complete the questionnaire. Completed questionnaires were dropped in the provided box.

The questionnaires were later collected from the box. These questionnaires were completed by a wide range of small and medium entrepreneurs. Some of the respondents were not literate enough to understand the questionnaire, but enthusiastic to participate in the research.

A total of seventy seven (77) out of 80 questionnaires were returned from the sample, which constitutes a 96.25% response rate. The main reason for non-completion of the three (3) questionnaires was that these respondents were not yet in business and never accessed any form of micro-finance loans or credit. The 77 useable returned questionnaires were handed to the Statistical Consultation Services of the North-West University for analysis. Sections below show results and discussions of the analysed questionnaires.

3.3 THE RESULTS AND DISCUSIONS OF THE FINDINGS

3.3.1 The Socio-demographic profile of the respondents

3.3.1.1 Gender

- Purpose of question

The purpose of question 1, in Section A of the questionnaire (refer to Appendix A) was to classify the gender of entrepreneurs who participated in the research. The results can be used to conclude if there is an association between entrepreneurial orientation and gender.

- Results obtained.

The gender of entrepreneurs that responded to the questionnaire is depicted in Table 3.1 below.

Table 3.1: Gender of respondents.

Gender	**Frequency**	**Percentage**
Male	58	75.3
Female	18	23.4
Total	76	98.7
Missing	1	1.3
Total	77	100.0

- Analysis of the results.

The largest group of respondents in this study was characterized by male entrepreneurs with 76.3% of the total, followed by female entrepreneurs with 23.4% and a 1.3% missing value which means that 1 respondent omitted this question. Predominance of male entrepreneurs indicated that in this environment, there are more males who are in business than females.

3.3.1.2 Marital status

- Purpose of question.

The purpose of question 2, in Section A of the questionnaire (refer to Appendix A) was to identify the marital status of the entrepreneurs. The results can be used to conclude if there is an association between entrepreneurial orientation and marital status.

- Results obtained.

The marital status of entrepreneurs that responded to the questionnaire is depicted in Table 3.2 below.

Table 3.2: Marital status of respondents.

Marital status	**Frequency**	**Percentage**
Single	24	31.2
Married	37	48.1
Divorced	15	19.5
Missing	1	1.3
Total	77	100.0

- Analysis of the results.

Table 3.2 indicates that 37 (48.1%) of the participants are married, twenty four entrepreneurs (31.2%) were single, fifteen (19.5%) entrepreneurs are divorced and one missing value (1.3%) which means that one respondent did not indicate their marital status in the questionnaire.

3.3.1.3 Age group category

- Purpose of question.

The purpose of question 3, in Section A of the questionnaire (refer to Appendix A) was to establish the age group category of participants.

- Results obtained.

Table 3.3 below contains the age group category of entrepreneurs that participated in the research.

Table 3.3: Age group category of respondents.

Age group category	Frequency	Percentage
<30years	24	31.2
30-50years	32	41.6
>50years	21	27.3
Total	77	100.0

- Analysis of the results.

The largest grouping in the age group category analysis was defined by the 30 to 50 (41.6%) years age group followed by under 30 (31.2%) years age group. The last category represented the above 50 (27.3%) years age group.

3.3.1.4 Household size (number of people).

- Purpose of the question.

The purpose of question 4, Section A of the questionnaire (refer to Appendix A) was to establish the household size (number people) of participating entrepreneurs.

- Results obtained.

Table 3.4 present the household size (number of people) of participating entrepreneurs.

Table 3.4: Household size (number of people) of participating entrepreneurs

Household sized (number people)	Frequency	Percentage
1-5people	44	57.1
6-10people	16	20.8
>10people	12	15.6
Missing	5	6.5
Total	77	100.0

- Analysis of the results.

The greater part of the participants 44 (57.1%) have a household size of 1 to 5 people, followed by 16 (20.8%) respondents having 6 to 10 people and 12 (15.6%) respondents have more than 10 people. Five (6.5%) did not respond to this question.

3.3.1.5 Years of experience in business

- Purpose of the question.

The purpose of question 5, Section A of the questionnaire (refer to Appendix A) was to establish entrepreneurs' years of experience in business.

- Results obtained.

Table 3.5 below presents the entrepreneurs' years of experience in business.

Table 3.5: Years of experience in business

Years of experience	Frequency	Percentage
1-5years	26	33.8
6-10years	23	29.9
11-15years	11	14.3
16-20years	15	19.5

Missing	2	2.6
Total	77	100.0

- Analysis of the results.

A total of 26 (33.8%) participants indicated that they have 1 to 5 years' experience in business while 23 (29.9%) respondents have 6 to 10 years of business experience. Fifteen (19.5%) entrepreneurs have 16 to 20 years' experience in business. Lastly, 11 (14.3%) entrepreneurs signified that they have 11 to 15 years of experience running the business. Two (2.6%) respondents did not indicate their opinions for this question.

3.3.2 The Functioning of micro-finance institutions

3.3.2.1 Utilisation of services offered by MFIs

- Purpose of the question.

The purpose of question 6, Section B of the questionnaire (refer to Appendix A) was to determine the utilization of services offered by micro-finance institutions to the entrepreneurs. The types of services offered by micro-finance institutions are saving accounts, insurance, pensions, money transfers, training and technology. Respondents indicated yes or no, according to the services they received.

- Results obtained.

Table 3.6 below presents the entrepreneurs' utilization of services offered by micro-finance institutions.

Table 3.6: Utilization of services offered by MFIs

Savings account	**Frequency**	**Percentage**
Yes	51	66.2

No	26	33.8
Total	77	100.0
Insurance	**Frequency**	**Percentage**
Yes	12	15.6
No	65	84.4
Total	77	100.0
Pension	**Frequency**	**Percentage**
Yes	10	13.0
No	67	87.0
Total	77	100.0
Money transfer	**Frequency**	**Percentage**
Yes	58	75.3
No	19	24.7
Total	77	100.0
Training	**Frequency**	**Percentage**
Yes	49	63.6
No	28	36.4
Total	77	100.0
Technology	**Frequency**	**Percentage**
Yes	29	37.7
No	48	62.3
Total	77	100.0

- Analysis of the results.

The majority of respondents 58 (75.3%) specified that they utilized money transfers and 19 (24.7%) of respondents did not. A total of 51 (66.2%) participants made use of saving accounts, while 26 (33.8%) specified that they did not use this service. Additionally, 49 (63.6%) respondents specified that they went for training, while 28 (36.4%) of respondents indicated that they did not attend any training workshops.

The majority of respondents 65 (84.4%) indicated that they did not have insurance while only 12 (15.6%) of respondents utilized this service. A similar trend was observed for pension services, where the vast majority of respondents 67 (87.0%)

indicated that they did not have a pension fund and only 10 (13.0%) of respondents had pension. Finally, 48 (62.3%) of respondents indicated that they did not make use of technology services offered by MFIs, but 29 (37.7%) put these services into practice.

3.3.2.2 Areas of consulting received from MFIs

- Purpose of questions

The purpose of question 7, Section B of the questionnaire (refer to Appendix A) was to determine the area of consulting received by the entrepreneurs. The areas of consulting services on offer from micro-finance institutions are leadership, finance, operations, marketing and administration. Respondents indicated with yes or no to show the consulting services they received.

- Results obtained.

Table 3.7 below presents the areas of consulting received by the entrepreneurs.

Table 3.7: Areas of consulting received by the entrepreneurs

Leadership	**Frequency**	**Percentage**
Yes	35	45.5
No	41	53.2
Missing	1	1.3
Total	77	100.0
Finance	**Frequency**	**Percentage**
Yes	57	74.0
No	20	26.0
Total	77	100.0
Operation	**Frequency**	**Percentage**
Yes	55	71.4
No	22	28.6

Total	77	100.0
Marketing	**Frequency**	**Percentage**
Yes	38	49.4
No	38	49.4
Missing	1	1.3
Total	77	100.0
Administration	**Frequency**	**Percentage**
Yes	34	44.2
No	42	54.5
Missing	1	1.3
Total	77	100.0

- Analysis of the results.

The greater part of respondents 57 (74.0%) said that they received consulting services relating to finance and 20 (26.0%) of respondents did not receive these consulting services. Fifty five (71.4%) specified that they did make use of consulting services related to running operations and 22 (28.6%) of respondents did not. A similar trend was observed for marketing, where 38 (49.4%) of respondents specified that they received marketing consultation, while 38 (49.4%) of respondents indicated they did not received marketing consultation. 1 (1.3%) respondent did not indicate their opinion.

The results from the questionnaire indicated that 41 (53.2%) of respondents did not receive consulting services related to leadership, while 35 (45.5%) did receive this it. 1 (1.3%) respondent did not indicate their point of view on the questionnaire. As a final point, 42 (54.5%) of respondents indicated that they did not receive consulting services offered in the area of administration, 34 (44.2%) received this service and 1 (1.3%) respondent did not mark their opinion.

3.3.2.3 The roles micro-finance institutions played in small and medium enterprises

- Purpose of question.

The purpose of question 8, Section B of the questionnaire (refer to Appendix A) is to determine the roles that micro-finance institutions play in small and medium enterprises. The roles include the facilitator of small and medium growth, tool for social change, provider of banking services to the people, tool for empowerment, transferrer of technology and destroyer of small and medium enterprises. Respondents indicated with yes or no to show the roles that MFIs played in their small and medium enterprises.

- Results obtained.

Table 3.8 below represents the roles played by micro-finance institutions in the small and medium enterprises of participating respondents.

Table 3.8: The roles played by micro-finance institutions

Facilitator of small and medium enterprises growth	**Frequency**	**Percentage**
Yes	53	68.8
No	24	31.2
Total	77	100.0
Tool for social change	**Frequency**	**Percentage**
Yes	56	72.7
No	21	27.3
Total	77	100.0
Provider of banking services to the people	**Frequency**	**Percentage**
Yes	62	80.5
No	15	19.5
Total	77	100.0
Tool for empowerment.	**Frequency**	**Percentage**
Yes	53	68.8

No	24	31.2
Total	77	100.0
Transferrer of technology	**Frequency**	**Percentage**
Yes	44	57.1
No	30	39.0
Missing	3	3.9
Total	77	100.0
Destroyer of small and medium enterprises	**Frequency**	**Percentage**
Yes	24	31.2
No	52	67.5
Missing	1	1.3
Total	77	100.0

- Analysis of the results.

Table 3.8 indicates that the majority of respondents 62 (80.5%) specified that micro-finance institutions fulfilled the role of provider of banking services, while 15 (19.5%) indicated that micro-finance institutions did not fulfill this role for them. Concerning the role of micro-finance institutions as a tool for change, 56 (72.7%) indicated that micro-finance institutions fulfilled this role, 21 (27.3) specified that this was not the case for them. A total of 54 (68.8%) participants viewed micro-finance institutions as a facilitator of small and medium enterprise growth, while 24 (31.2%) specified that micro-finance institutions are not fulfilling this role. Additionally, a total of 53 (68.8%) of participants regarded micro-finance institutions as a tool for empowerment. However, 24 (31.2%) of participants did not regard micro-finance institutions in the same light.

Forty four (57.1%) of respondents said that micro-finance institutions was a transferor of technology and 30 (39.0%) stated that microfinance institutions are not fulfilling this role. Three (3.9%) of respondents did not specify their opinions. Lastly, 56 (67.5%) participants indicated that they do not see micro-finance institutions as destroyers of small and medium enterprises, while 24 (31.2%) specified that in their opinion micro-finance institutions are destroying small and medium enterprises.

3.3.2.4 Most recent micro-credit utilized by entrepreneurs.

- Purpose of the question.

The purpose of question 9, Section B of the questionnaire (refer to Appendix A) was to determine the most recent micro-credit utilized by the entrepreneurs. The most recent micro-credit accessed by the entrepreneurs included friends or relatives, commercial banks and credit cooperative societies. Respondents indicated their opinion by selecting one appropriate source of financing most recently used.

- Results obtained.

Table 3.9 below represents the most recent micro-credit utilized by the entrepreneurs of participating SMEs.

Table 3.9: Most recent source of micro-credit utilized by the entrepreneurs

Most recent source of micro-credit accessed	**Frequency**	**Percentage**
Friends or relatives	15	19.5
Micro-finance Institutions	35	45.5
Commercial banks	18	23.4
Credit cooperative societies	9	11.7
Total	77	100.0

- Analysis of the results.

The majority of participants 35 (45.5%) indicated that recently they did utilize micro-finance institutions followed by 18 (23.4%) of respondents who used commercial banks as source of financing, 15 (19.5%) of respondents accessed micro-credit from relatives or friends and 9 (11.7%) from a credit cooperative society.

3.3.2.5 Reasons to acquire micro-loans.

- Purpose of the question.

The purpose of question 10, Section B of the questionnaire (refer to Appendix A) was to find out the reasons for acquiring micro-loans by the entrepreneurs. The reasons for taking out micro-loans were to expand existing businesses, acquire new equipment, using the micro-loans as working capital and for building projects. Respondents indicated their opinion by selecting one appropriate reason for acquiring a micro-loan.

- Results obtained.

Table 3.10 below represents the reasons for acquiring micro-loans by the entrepreneurs of SMEs

Table 3.10: Reasons for acquiring micro-loans

Reason for acquiring a micro-loan.	**Frequency**	**Percentage**
Start a new business.	26	33.8
Expand an existing business.	20	26.0
Acquire new equipment.	11	14.3
Use loan as working capital.	12	15.6
Building projects.	8	10.4
Total	77	100.0

- Analysis of the results.

The most prominent reason for acquiring micro-credit as indicated by 26 (33.8%) respondents was to start a new business, followed by expanding an existing business as indicated by 20 (26.0%) respondents. The third reason was to the money for working capital as shown by 12 (15.6%) respondents. The least prominent indications for getting a loan were for acquiring new equipment and building projects, which were specified by 11 (14.3%) and 8 (10.4) respondents respectively.

3.3.2.6 Financing amounts received

- Purpose of the question.

The purpose of question 11, Section B of the questionnaire (refer to Appendix A) was to verify the financing amount granted to the entrepreneurs. Respondents indicated their opinion by selecting one appropriate financing amount received from the micro-loan.

- Results obtained.

Table 3.11 represents the financing amount granted to the entrepreneurs of participating SMEs

Table 3.11 Financing amount granted to the entrepreneurs.

Financing amounts received in US $	Frequency	Percentage
Under 5 000	14	18.2
6 000 – 10 000	21	27.3
11 000 – 15 000	20	26.0
16 000 – 20 0000	9	11.7
21 0000 – 25 000	7	9.1
Above 26 000	6	7.8
Total	77	100.0

- Analysis of the results.

Overall, 21 (27.3%) participants indicated that they were granted a micro-loan of 6 000 to 10 000, 00 (US $), while 20 (26.0%) of respondents received the amount of 11 000, 00 to 15 000, 00 (US $). Only 14 (18.2%) respondents received less than 5 000, 00 (US $). In addition 9 (11.7%) respondents received between 16 000, 00 to 20 000, 00 (US$) and 7 (9.1%) received a micro-loan between 21 000, 00 to 25 000, 00 (US $). Lastly, 6 (7.8%) of respondents indicated they received a micro-loan of more than 26 000, 00 (US $).

3.3.2.7 Interest rates charged.

- Purpose of the question.

The purpose of question 12, Section B of the questionnaire (refer to Appendix A) was to determine the interest rates charged to the entrepreneurs for the micro-credit contracted. Respondents indicated their interest rate by selecting one of the appropriate choices for interest rates charged for the acquired micro-loans.

- Results obtained.

Table 3.12 below represents the Interest rate charged to the entrepreneurs of SMEs.

Table 3.12: Interest rates charged to the entrepreneurs

Interest rates charged	Frequency	Percentage
Under 10%	2	2.6
11-20%	24	31.2
21-30%	22	28.6
31-40%	9	11.7
41-50%	6	7.8
51% & above	14	18.2
Total	77	100.0

- Analysis of the results.

A majority of 24 (31.2%) participants indicated that interest rate charged for their loan range between 11 to 20%, while 22 (28.6%) of respondents specified interest rates ranging from 21 to 30%. Interest rates charged at 51% and above was indicated by 14 (18.2) respondents. Furthermore, 9 (11.7%) respondents pointed out that their interest rates were between 31 to 40% and 6 (7.8%) of respondents were charged from 41 to 50%. Surprisingly, 2 (2.6%) of respondents indicated interest rates below 10%.

3.3.2.8 Collateral required by the micro-finance institutions.

- Purpose of the question.

The purpose of question 13, Section B of the questionnaire (refer to Appendix A) was to determine the collateral required to obtain micro-credit from micro-finance institutions. The collateral required by the micro-finance institutions were natural assets (land/minerals), physical asset (houses/cars) and financial assets (savings/life policies). Respondents indicated their response by selecting the appropriate collateral required to obtain the micro-loan.

- Results obtained.

Table 3.13 below represents the collateral required to obtain micro-credit from micro-finance institutions.

Table 3.13: Collateral required obtaining micro-credit

Collateral required	**Frequency**	**Percentage**
Natural assets (land/minerals)	30	39.0
Physical assets (houses/cars)	43	55.8
Financial asset (savings/life policies)	2	2.6
Missing	2	2.6
Total	77	100.0

- Analysis of the results.

The largest number of participants; 43 (55.8%) indicated that they provided collateral in the form of physical assets such as a car or a house, followed by 30 (39.0%) respondents who indicated that their collateral provided were in form of natural assets (land/minerals) and 2 (2.6%) entrepreneurs provided collateral in the form financial assets such as savings and life policies. Two (2.6%) respondents did not indicate their opinions for this question. Respondents answered questions 14 and 15 of section B according to the Likert scale of four points.

3.3.2.9 Constraints to obtaining micro-loans

- Purpose of the question.

The purpose of question 14, Section B of the questionnaire (refer to Appendix A) was to determine the constraints faced by the entrepreneurs to obtain micro-loans.

- Results obtained.

Table 3.14 represents the mean and the standard deviation (variation around the mean) of each of the 7 assertions representing constraining factors for acquiring micro-loans.

Where four Likert scale type questions (1 = not all, 2 = to a small degree, 3 = to a moderate degree and 4 = to a large degree) were asked, low numbers specified agreement with the assertion to a lesser extent, while high numbers indicated that respondents were in higher agreement with the declaration.

Table 3.14: Constraints faced by the entrepreneurs

Constraints	**N**	**Mean**	**Std. Deviation**
High interest rates.	76	3.1184	.99287
Inadequate credit.	74	3.0000	.77636
Repayment schedule.	76	3.1184	.78260
Amount of loan obtained.	73	2.9452	.70495
Late approval.	74	3.0270	.79335
Collateral contribution	76	3.0526	.79824
Inaccessibility of banks in the area of location.	76	3.1974	.80033

- Analysis of the results.

The biggest constraint facing the respondents in acquiring micro-loans is inaccessibility of banks in their area of location, because participants indicated a very high mean of 3.1974 for this declaration. Other statements that also obtained high levels of agreement were high interest rates (mean of 3.1184), repayment schedule (mean of 3.1184) and collateral contribution (mean of 3.0526).

This indicated that respondents were in agreement with these declarations. Statements that obtained a low mean were late approval (mean of 3.0270), inadequate credit (mean of 3.0000) and the amount of loan obtained (mean of 2.9452). The low mean indicated that respondents were in lesser agreement with the declarations.

3.3.2.10 Factors that influence the choice of MFIs

- Purpose of the question.

The purpose of question 15, Section B of the questionnaire (refer to Appendix A) was to determine the factors that influenced the choice of micro-finance institutions by the entrepreneurs.

- Results obtained.

Table 3.15 indicates the mean and the standard deviation (variation around the mean) of each of the 5 assertions representing the extent to which these factors influence the choice of micro-finance institution, for acquiring a micro-loan. Four Likert scale type questions (not at all, to a small degree, to a moderate degree and to a large degree) were asked low numbers specified lesser agreement with the assertion, while high numbers indicated that respondents were in greater agreement with the declaration.

Table 3.15: Factors that influence the choice of micro-finance institution

Factors influencing the choice of MFI.	N	Mean	Std. Deviation
Location of the MFIs.	76	2.8684	.77187
Influence of friends.	76	2.9737	.78271
Knowledge of the staff of MFIs.	74	2.7162	.81963
Availability of credit.	75	2.9733	.82156
Additional services provided by MFIs.	77	2.7273	.94083

- Analysis of the results.

Factors that influenced the choice of a micro-finance institution with the highest mean were the influence of friends, because participants indicated the highest level of agreement (mean of 2.9737) for this declaration. Other statements that also obtained high levels of agreement were availability of credit (mean of 2.9733) and the location of the micro-finance institutions (mean of 2.8684). This indicated that respondents were in agreement with these declarations.

Statements that obtained a low mean were additional services provided by the micro-finance institutions (mean of 2.7273) and knowledge of the staff of the micro-finance institutions (mean of 2.7162). The low mean indicates that respondents were in lesser agreement with the declarations.

3.3.3 The Performance of small and medium enterprises

Section C of the questionnaire required respondents to answer according to the Likert scale of four points.

3.3.3.1 Effect on the performance of small and medium enterprises

- Purpose of the question.

The purpose of question 16, Section C of the questionnaire (refer to Appendix A) was to determine the performance of small and medium enterprises after contracting the micro-loan and other services.

- Results obtained.

Table 3.16 below represents the area of changes small and medium enterprises experienced after contracting the micro-loans and other services.

Table 3.16: Performance of small and medium enterprises

Changes in Small and medium enterprises.	**N**	**Mean**	**Std. Deviation**
Increase in revenue.	77	2.5455	.89656
Increase in net profit.	76	2.6447	.87489
Increase in their customer base.	74	2.6892	.77505
Increase in the facility for operations.	75	2.7200	.86306
Increase in productivity.	76	2.7368	.88496
Increase in the labour force.	75	2.6000	.75337
Increase in market share.	74	2.6351	.86917
Increase in brand awareness.	75	2.8000	.82199

- Analysis of the results.

The highest change experienced by the respondents after acquiring a micro-loan was an increase in brand awareness, because participants indicated a very high mean of 2.8000 for this declaration. Other statements that also obtained high levels of agreement were an increase in productivity (mean of 2.7368), an increase in the facilities for operations (mean of 2.7200) and an increase in their customer base (mean of 2.6892). This indicated that respondents were in agreement with these declarations.

Statements that obtained a low mean were an increase in net profit (mean of 2.6447), an increase in market share (mean of 2.6351) and an increase in their labour force (mean of 2.6000). The least prominent change experienced was an increase in revenue (mean of 2.5455). The low mean indicated that respondents were in lesser agreement with the declarations.

3.3.3.2 Changes experienced by individuals

- Purpose of the question

The purpose of question 17, Section C of the questionnaire (refer to Appendix A) was to determine the area of changes individuals experienced after contracting the micro-loans and other services.

- Results obtained.

Table 3.17 below represents the area of changes individuals experienced after contracting the micro-loans and other services.

Table 3.17: Changes individuals experienced

Changes as an individual	**N**	**Mean**	**Std. Deviation**
Increased standard of living.	74	2.7027	.67701
Improved education for family members.	75	2.7333	.81096
Increased consumption levels.	72	2.5972	.83345
Increased personal income.	75	2.7467	.80695
Became a role model.	75	2.7733	.76359
Increased management skills	75	2.8400	1.00054

- Analysis of the results.

Increased management skills was rated as the highest change experienced on individual level by the respondents after acquiring a micro-loan, with a high mean of 2.8000. Additional declarations that also obtained high levels of agreement were became role model (mean of 2.7733) and increased personal income (mean of 2.7467). This indicated that respondents were in agreement with these declarations.

Statements that obtained a low mean were improved education for family members (mean of 2.7333) and increased standard of living (mean of 2.7027). The least prominent change experienced by individuals was an increase in consumption levels (mean of 2.5972). The low mean indicated that respondents were in lesser agreement with the declarations.

3.3.3.3 Factors that positively contributed to the performance of SMEs

- Purpose of the question.

The purpose of question 18, Section C of the questionnaire (refer to Appendix A) was to determine the factors that positively contributed to the performance of the businesses.

- Results obtained.

Table 3.18 represents the factors that positively contributed to the performance of the businesses.

Table 3.18: Factors that positively contributed to the performance of businesses

Positive factors	N	Mean	Std. Deviation
Provision of a micro-loan by a MFI.	72	2.8056	.76248
Consulting services provided by MFIs.	73	2.4384	.79907
Government intervention.	71	2.1268	1.05464
General performance of the economy.	72	2.6806	.85294

- Analysis of the results.

Provision of a micro-loan by a MFI was rated as the highest factor that positively contributed to the performance of the businesses by the respondents, with a high mean of 2.8056. It was followed by the general performance of the economy (mean of 2.6806). This indicated that respondents were in agreement with these two declarations.

Statements that obtained low mean were consulting services provided by a MFI (mean of 2.4384) and the lowest was Government intervention (mean of 2.1268). The low mean indicated that respondents were in lesser agreement with the declarations.

3.3.3.4 Factors that negatively contributed to the performance of the businesses

- Purpose of the question.

The purpose of question 19, Section C of the questionnaire (refer to Appendix A) was to determine the factors that negatively contributed to the performance of the businesses.

- Results obtained.

Table 3.19 below represents the factors that negatively contributed to the performance of the businesses.

Table 3.19: Factors that negatively contributed to the performance of the businesses

Negative factors	N	Mean	Std. Deviation
Repayment schedules.	71	2.8873	.76624
Taxes.	73	3.1370	.87106
General performance of the economy.	71	2.7606	.72634
Infrastructure of the Democratic Republic of Congo.	73	3.2329	.96495

- Analysis of the results.

Infrastructure of the DRC was rated as the highest factor that had a negative influence on the performance of the businesses by the respondents, with a high mean of 3.2329, this was followed by taxes (mean of 3.1370) and interest rates (mean of 3.0685). This indicated that respondents were in agreement with these three declarations.

Statements that obtained a low mean were repayment schedules (mean of 2.8873) and the lowest was general performance of the economy (mean of 2.7606). The low mean indicated that respondents were in lesser agreement with the declarations.

3.3.4 Reliability of the questionnaire measuring the constructs

The reliability of the internal consistencies of the questionnaire was calculated through the establishment of the Cronbach Alpha's coefficients. The Cronbach Alpha's coefficient was based on the mean correlation of variables within certain tests and was about the composition of the questionnaire. The Cronbach Alpha's coefficient that is greater than 0.7, is the more reliable scale of construct. The questionnaire was considered as reliable and internally consistent.

Table 3.20 contains the reliability and internal consistency of the constructs measured in the questionnaire.

Table 3.20: Reliability and internal consistency of the constructs

Construct	**Cronbach Alpha's**
Constraints that affect the SMEs to obtain the micro-loans.	.778
Factors influencing the choice of a MFI.	.669
Changes SMEs experienced after contracting micro -loans and other services	.823

- Analysis of the results.

The results indicate in table 3.20 that the measuring instrument used to measure the constructs had acceptable reliability. Two factors had Cronbach Alpha's values above the acceptable value of 0.70. One factor had a value of .669 which is still acceptable. This proved the reliability of the internal consistencies of the questionnaire.

3.3.5 Mean of score factor.

The mean of score factor was to group factors with similar inclinations within a question and established the mean of the grouping thereafter. Table 3.21 provided the mean score factor for question 14 to 19 of the questionnaire. Question 14 to 16 consisted of two factors, while question 17 to 19 comprised of one factor. The mean specified the level of agreement of the assertions presented in the questionnaire.

Table 3.21: Mean of score factor

Factor	Mean	Std. Deviation
14 Constraint under the bank's control.	3.0379	.63903
14 Other constraints.	3.0974	.57249
15 General factors that influenced the choice of a MFI.	2.8896	.56267
15 Additional services that influenced choice of a MFI.	2.7273	.94083
16 Financial changes SMEs experienced.	2.6039	.80434
16 Operational changes SMEs experienced.	2.7076	.60264
17 Changes individuals experienced.	2.7351	.58324
18 Factors that positively contributed to the performance of SMEs.	2.5148	.60466
19 Factors that negatively contributed to the performance of SMEs.	3.0275	.60171

- Analysis of the results.

The results of the mean score factor in table 3.21 indicated that on average responses for question 14 to 19 were above 2.5 on the scale of 1= not at all, 2= to a small degree, 3= to a moderate degree and 4= to a large degree. The mean score above 2.5 was the indication that respondents agreed to large extend to these questions.

3.1 CHAPTER SUMMARY

The chapter concentrated on research methodology with the focus on data gathering, development, the construct of the questionnaire and data collection through the use of the questionnaire. The questionnaire was completed by 77 small and medium entrepreneurs during the small scale mining forum that took place in the Oriental Province of the DRC.

The obtained information was captured and presented in frequency tables using the Statistical Consultation Services of the North West University. Frequency tables served as inputs to the analysis. The results were analysed in relationship to the context of the research objectives and the problem statement. The collected data comprised of statements in section A, B and C as referred to Appendix A.

The outcome of the analysis indicated that participants utilised services offered by micro-finance institutions mainly in the area of training, saving accounts; money transfers to a larger extent and to a lesser extent the insurance, pension and technology services. To a higher extent, small and medium enterprises received consulting services relating to leadership, finance, operations and marketing. To a lesser extent they received consulting services offered in the area of administration.

Micro-finance institutions played the role of facilitator to small and medium enterprise growth, as a tool for change, provider of banking services, tool for empowerment, transferor of technology and to a lesser extent showed that micro-finance institutions are destroyers of small and medium enterprises.

Furthermore, two sources of financing utilized most recently by small and medium enterprises were micro-finance institutions and commercial banks. The borrowed finance was used prominently to start a new business with, expand the business and for working capital. The amount of the micro-loans borrowed was mainly from 6 000 to 10 000, 00 (US $), 11 000, 00 to 15 000, 00 (US $) and under 5 000, 00 (US $). The interest rates paid were from 11 to 20%, 21 to 30% and 51% and above. The collateral provided was in the form of physical assets such as a car or a house.

The results of the mean score factor indicated that on average responses for questions 14 to 19 were above 2.5 on the scale of 1 to 4. The mean score above 2.5 was the indication that respondents agreed to large extend to these statements. This leads to the conclusion that overall, the effect of micro-finance institutions on the performance of small and medium enterprises in the DRC was positive as proved by the mean score factor.

The next chapter, which is chapter four, will focus on the empirical study’s conclusion to steer the effects of micro-finance institutions' performance in the DRC.

CHAPTER 4

CONCLUSION AND RECOMMENDATIONS

4.1 INTRODUCTION

This chapter concluded the empirical study, by enlisting the effects of micro-finance institutions on small and medium enterprises in the DRC. The chapter further suggests recommendations to advance micro-finance. Moreover, attainment of study objectives as well as suggestions for additional research and a critical evaluation of the study are discussed.

4.2 CONCLUSIONS OF THE EMPIRICAL STUDY

The following subsections show the typical effect of micro-finance institutions on small and medium enterprises in the DRC as a conclusion of the empirical study conducted.

4.2.1 Socio-demographic profile of the respondents

The majority of entrepreneurs who participated in this study were male, between the ages of 30 to 50 years, married with a household size (number of people) of one to five people. The entrepreneur had between 1 and 5 years' experience in business.

4.2.2 The functioning of micro-finance institutions

Although respondents utilized services such as saving accounts and training and technology, money transfers was the most used service by small and medium enterprises. The area of consulting that respondents received the most was finance. Provision of banking services to the people was rated the higher among the roles fulfilled by micro-finance institutions. Micro-finance institutions were selected as the most recent source of micro-credit small and medium enterprises accessed to acquire a micro-loan. The prominent reason for acquiring micro-credit was to start a new business. The amounts of the micro-loans contracted ranged from 6 000, 00 to 10 000, 00 (US$) and interest rates paid by entrepreneurs ranged from 11% to 20%. The collateral required for a micro-loan was a physical asset (house or car).

Respondents were in agreement that inaccessibility of banks in the area of location was the main constraint to obtaining a micro-loan. Factors that influenced the choice of a micro-finance institution were the influence of friends followed by the availability of credit and the location of micro-finance institutions.

4.2.3 Performance of small and medium enterprises

Changes in the performance of small and medium enterprises experienced after contracting micro-loans and other services were increased brand awareness as the highest area of performance change, followed by an increase in productivity, increased facilities for operations and an increased customer base.

Changes experienced by the entrepreneurs as individuals after contracting micro-loans and other services was indicated as an increase in management skills, followed by becoming a role model and an increase in personal income. The provision of a micro-loan by micro-finance institutions was rated as the highest factor that positively contributed to the performance of small and medium enterprises, followed by the general performance of the economy and consulting services. The infrastructure of the DRC was rated as the highest factor that negatively contributed to the performance of the business, followed by taxes and interest rates.

4.3 RECOMMENDATIONS

Micro-finance has been identified as an important tool in the developing countries where commercial banks are unable to provide for the financial quest of the poor, small and medium enterprises. Micro-finance is also recognised as an instrument for economic growth in these countries. Additionally, it has the potential to create jobs and alleviate poverty. To stimulate greater performance of small and medium enterprises in the DRC, recommendations include among many others:

- Capacity building within micro-finance institutions.

Micro-finance institutions have the potential to expand in the regions where banking and financial services are not provided. Outreach in new areas enable the growth of micro-finance institutions and accelerate the provision of micro-credit to the vast need in the DRC. This outreach should include formal training, consulting services with on-site support practices for the most suited needs of the particular local conditions.

- Engagement of investors.

Micro-finance institutions should engage in both development and commercial banks for the inclusion of potential investors to increase the flow of financial resources for micro-finance institutions.

- Government interventions.

It is recommended that the Government provide an environment that is appropriate for small and medium enterprises to flourish. Policies and regulations for small and medium enterprises should be relaxed and provide incentives to those who operate in the informal sector to enter the formal economy stream. Aspiring small and medium entrepreneurs should find it appealing to do business the formal sector. Eliminate red tape to register new businesses and layers of administrative requirements. Institute one centre where small and medium entrepreneurs can be assisted without delays.

The DRC's Government should address policies that limit the ability of micro-finance institutions to raise resources either locally through member deposits or through institutional borrowing, or from international investors in the form of equity, loans or other financial instruments.

To accomplish these activities, a series of engagements, structured workshops, seminars, dialogue and documentation are required, in order to promote an understanding of the needs and abilities of micro-finance institutions to promote economic growth.

4.4 THE CRITICAL EVALUATION OF THE STUDY

Section 1.3 of this research delineated the objectives of the study. The achievement of the study is based upon the realisation of the primary and secondary objectives.

4.4.1 Primary objectives revisited

The general objective of this study is to investigate the effect of micro-finance institutions on the performance of small and medium enterprises in the DRC. For this reason, secondary objectives were formulated with the aim of implementing the primary objective.

4.2.2 Secondary objectives revisited.

- Firstly, gain insight into the effect of micro-finance institutions on the performance of small and medium enterprises.

- Secondly, establish the socio-demographic profile of small and medium entrepreneurs who contracted micro-credit.
- Thirdly, assess the functioning of micro-finance institutions in the DRC.
- Fourthly assess the performance of small and medium enterprises.

The first secondary objective; to gain insight into the effect of micro-finance institutions on small and medium enterprises by means of a literature study, was realized in chapter two, the literature review. It provided insights that supplied a structured understanding on the effect of micro-finance institutions on the performance of small and medium enterprises.

The second secondary objective; to establish the socio-demographic profile of small and medium entrepreneurs, who contracted micro-credit, was achieved in chapter three, the empirical research and concluded in chapter four.

The third secondary objective; to assess the functioning of micro-finance institutions in the Democratic Republic of Congo was attained in chapter two's literature review, the comprehensive empirical research in chapter three and concluded in chapter four.

The fourth secondary objective; to assess the performance of small and medium enterprises was also reached in chapter two's literature review, comprehensive empirical research in chapter three and concluded in chapter four.

Through the achievement of all these secondary objectives it can be established that the primary objective which was to investigate the effect of micro-finance institutions on the performance of small and medium enterprises in the Democratic Republic of Congo was accomplished.

4.5 SUGGESTIONS FOR FUTURE RESEARCH

There was no empirical evidence found of prior research on the effect of micro-finance institutions on the performance of small and medium enterprises in the DRC. Consequently, further research in these areas is recommended to provide more insights to the broader subject of micro-finance or development finance.

The following suggested topics provide basis for future research:

- A comparative study between beneficiaries of micro-credit and non-beneficiaries in the DRC.
- An assessment of factors affecting the growth of micro-finance institutions in the DRC.
- How government policies affect micro-finance institutions in the DRC.
- Strategies for growth of micro-finance institutions in the DRC.
- Effects of services offered by micro-finance institutions on the performance of small and medium enterprises in DRC.

4.6 CHAPTER SUMMARY

This chapter consists of the conclusion of the empirical study, by providing a brief conclusion on the socio-demographic profile of respondents, the functioning of micro-finance institutions and the performance of small and medium enterprises.

Respondents indicated that increased brand awareness was a change that small and medium enterprises experienced on business level after contracting micro-loans and other services. On individual level an increase in management skills was experienced after contracting a micro-loan and other services. Provision of micro-loans by micro-finance institutions was rated as the factor that positively contributed to the performance of small and medium enterprises while the infrastructure of the DRC was rated as the factor that negatively contributed to the performance of the businesses.

The empirical research resulted in the general conclusion that the effect of micro-finance institutions on small and medium enterprises performance in the DRC was above the mean core factor of 2.5. This means that the effect of micro-finance institutions on small and medium enterprise performance in the DRC was positive as indicated in the study. The mean of factor established that there was a correlation between provision of finance and other services provided by micro-finance lenders and small and medium enterprise performance in the DRC.

The empirical research resulted in the formulation of a few recommendations to improve the performance of small and medium enterprises. The chapter includes achievements of this study's objectives and suggestions for future studies.

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APPENDIX A: EMPIRICAL STUDY QUESTIONNAIRE

SECTION A. SOCIO-DEMOGRAPHIC PROFILE OF THE RESPONDENT											
Select only one appropriate answer by marking an X in the box for each statement											
1 Gender			**2 Marital status**			**3 Age**			**4 Household size (people)**		
Male			Single			Under 30 yrs			1-5		
Female			Married			30-50 yrs			6-10		
			Divorced			Above 50 yrs			Above 10		

5 Experience in business	1-5 Yrs		6-10 Yrs		11-15 Yrs		16-20 Yrs		Above 20 Yrs	

SECTION B: THE FUNCTIONING OF MICROFINANCE INSTITUTION (MFI)			
Select only one appropriate answer by marking an X in the box for each statement			
6	**Did your organisation utilised services below offered by MFI?**	**Yes**	**No**
a	Saving account		
b	Insurance		
c	Pension		
d	Money transfer		
e	Training		
f	Technology		

7	**Indicate the area of consulting your organisation received from Microfinance institutions?**	**Yes**	**No**
a	Leadership		
b	Finance		

c	Operation		
d	Marketing		
e	Administration		

8	**Indicate the role that MFI played in your organisation?**	**Yes**	**No**
a	Facilitator of Small and medium enterprises growth		
b	Tool for social change		
c	Provider of banking services to the people		
d	Tool for empowerment		
e	Transferor of technology		
f	Destroyer of Small and medium enterprises		

Select only one appropriate answer for each question below by marking and X in the box			
9	**What was the most recent source of microcredit your organisation utilised to acquire a microloan?**		
	Friends or relatives	1	
	Microfinance Institutions	2	
	Commercial banks	3	
	Credit cooperative society	4	
Select only one appropriate answer for each question below by marking and X in the box			
10	**What was the reason for your organisation to acquire a microloan?**		
	Start the new business	1	
	Expand existing business	2	
	Acquire new equipment	3	
	Use as working capital	4	
	Building project	5	

Select only <u>one</u> appropriate answer for each question below by marking and X in the box			
11	**Indicate the amount of financing in USA dollar (in US $) your organisation received?**		
	Under 5 000	1	
	6 000 – 10 000	2	
	11 000 – 15 000	3	
	16 000 – 20 0000	4	
	21 0000 – 25 000	5	
	Above 26 000	6	

Select only <u>one</u> appropriate answer for each question below by marking and X in the box			
12	**What was the interest rate charged?**		
	Under 10%	1	
	11-20%	2	
	21-30%	3	
	31-40%	4	
	41-50%	5	
	51% & above	6	

Select only <u>one</u> appropriate answer for each question below by marking and X in the box			
13	**What was the collateral required for a microloan?**		
	Natural asset (land, mineral)	1	
	Physical asset (house, car)	2	
	Financial asset (saving, life policy)	3	

	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
14	**To what degree does each of the following constraints affect your organisation to obtain the microloan?**				
a	High interest rate				
b	Inadequate credit				
c	Repayment time				
d	Amount of loan obtained				
e	Late approval				
f	Collateral contribution				
g	Inaccessibility of banks in area of location				

	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
15	**To what extend did these factors influence the choice of a MFI?**				
a	Location of the MFI				
b	Influence of friends				
c	Knowledge of the staff of MFI				
d	Availability of credit				
e	Additional services provided by MFI				

SECTION C: PERFORMANCE OF SMALL AND MEDIUM ENTREPRISE (SME)					
	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
16	**To what degree does your organisation experienced changes after contracting the microloan and other services?**				
a	Increase revenue				
b	Increase net profit				
c	Increase customer base				
d	Increase facility for operation				
e	Increase productivity				
f	Increase labor force				
g	Increase market share				
h	Increase brand awareness				

	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
17	**To what degree has your life change as an individual after obtaining the microloan or other services?**				
a	Increase standard of life				
b	Improve education of family members				
c	Increase consumption level				
d	Increase personal income				
e	Become role model				
f	Increase management skills				

	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
18	**To what degree did each of the following factors positively contributed to the performance of the business?**				
a	Provision of microloan by MFI				
b	Consulting services by MFI				
c	Government intervention				
d	General performance of the economy				

	Mark each assertion with <u>one</u> appropriate answer with an X in the corresponding box	**Not at all**	**To a small degree**	**To a moderate degree**	**To a large degree**
19	**To what degree did each of the following factors contributed to the decline of the performance of the business?**				
a	Interest rate				
b	Payment period				
c	Taxes				
d	General performance of the economy				
e	Infrastructure of the Democratic Republic of Congo				

Thank you for completing the questionnaire