

**EFFECTS OF INTEREST RATES ON GROWTH OF MICROFINANCE BUSINESS:
A CASE STUDY OF FAULU MICROFINANCE BANK LIMITED IN KIAMBU
REGION**

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ABSTRACT

The project research was meant to investigate the effects of interest rates on growth of microfinance business, a case study of Faulu microfinance bank, in Kiambu region. The research design that was used in this study was both cross sectional and descriptive survey method aimed at establishing true effect of interest on growth of Mfis. The target population in this study was 80 employees of Faulu Microfinance in the entire region. A sample size of 50% selected using random sampling making forty employees. Primary data was collected using semi structured questionnaires and the secondary data was collected from the financial statements of Mfis for the period of 2011-2013. Data was analyzed using both the descriptive and inferential statistics and presenting using tables and bar graphs to give a clear picture of the research finding at a glance. The study concludes that interest rates charged to Mfis had an influence in their financial performance. The researcher found that interest rate charged on Mfis are very high, not fair and not affordable thus reducing entrepreneur's financial costs, improved cash flow and profitability on their business. The study recommends comprehensive impact analysis prior to setting of interest rates to mfis and standardization of interest rates by commercial banks in order to protect the mfis from loan default by borrowers.