

**An Evaluation of the Effectiveness of Informal Financing on
Operations of Small Scale Businesses:
A Case of Micro -Enterprises in Garissa Town, Kenya**

By

YAHYE ABDIRAHMAN KHALIF

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ABSTRACT

Though, informal credit institutions have proved relatively successful in meeting the credit needs of Micro-Enterprises, the effectiveness of informal finance in terms of providing opportunities for MEs to meet their financing needs and its sustainability in terms of maintaining the profitability of the MEs has not been established. It is for this reason that this study sought to evaluate the effectiveness of informal financing in the operations of MEs with an objective of establishing the ME's preference for the various sources of informal finances and assessing the sustainability of informal financing in terms of maintaining profitability of MEs. The findings of this study will be useful to academics / researchers, Micro-Enterprises. The study covered Garissa town and mainly focused on the use of informal financing by MEs operating in Garissa town. It was assumed that the respondents were to be objective and truthful in filling in the questionnaires and the respondents were able to read and write with objective interpretation of the test items. In summary, the findings of the study were that micro-finance institutions, ROSCAS, SACCOs and ASCAS are the highly preferred as sources of informal finance and MEs Owners are totally dissatisfied with the interest rates and service fees charged by these sources of informal financing. In conclusion, sources of informal finance are not in any way contributing to the growth ,instead they are killing them due to the exorbitant rates charged that make the finance costly not sustainable by the business profits. Based on the above findings, the study recommends that Informal finance sources to consider reducing their lending rates, Government to put in place legislation to govern participants in this industry, especially lenders and MEs to improve the efficiency of their operations so as to be able to repay for the finances obtained from informal sources.