



Microfinance Instability and Business Growth Dynamics in Kenyan Informal Economies: A Theoretical Framework

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Abstract

Microfinance institutions (MFIs) have become a cornerstone of financial inclusion in Kenya's informal economy. However, MFIs often face instability due to regulatory changes and market competition, which can hinder their effectiveness in supporting small businesses. Theoretical analysis will be employed, drawing insights from existing literature on microfinance, business growth, and economic stability in developing countries. A systematic review of relevant studies and empirical evidence will inform the theoretical framework. The theoretical framework established here provides valuable insights into the interplay between microfinance stability and small business performance in Kenyan informal economies. It highlights the importance of regulatory consistency and diversified funding sources for MFIs. MFIs should prioritise developing more stable financial products, such as longer-term loans with fixed interest rates, to better support their clients' growth needs. Additionally, policy makers could consider implementing measures that promote MFIs' stability and diversification.

Keywords: *Kenyan, Informality, Microfinance, Stability, Growth, Development, Theory, Dynamics*

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