

**AN EVALUATION OF EFFECT OF PROVISION OF MICRO-FINANCE ON
THE PERFORMANCE OF MICRO-ENTERPRISES: A STUDY OF YOUTH
MICRO ENTERPRISES UNDER K-REP PROGRAM, KISII COUNTY, KENYA**

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**A Research Project Submitted to the Graduate School in Partial Fulfilment of the
Requirements for the Award of the Degree of Master of Business Administration of
Kisii University College**

EGERTON UNIVERSITY



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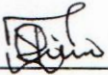
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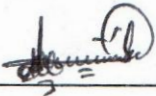
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RECOMMENDATION

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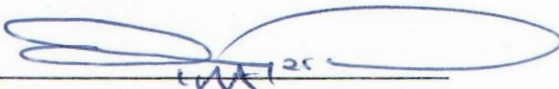


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DEDICATION

I dedicate this work to my beloved wife Mildred and son Dickens for their support, to the fond memories of my late father Samwel Otololo and Mother Alusia Warinda for being a source of inspiration and happiness and to all my brothers and sisters for their encouragement.

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ABSTRACT

Micro and Small Enterprises (MSEs) sector contributes 20% to the GDP of the Kenyan economy. The vision of micro finance is to promote the growth of micro enterprises. In pursuit of this vision, the rapid growth of Micro Finance Institutions (MFIs) has made MSEs access to credit more than doubled from 7.5% in 2006 to 17.9% in 2009. Despite this increase, a recent study has shown that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment. This brings to question the effectiveness of the role of micro finance in promoting growth of micro enterprises. The overall objective of this study was to evaluate the effect of provision of micro finance on the performance of micro enterprises. The study was guided by the concept of micro finance which is the provision of financial services to low income groups engaging in income generating activities. Objective of micro finance is to empower the poor. The study was conducted through a cross-section survey design. The population of study comprised 110 Youth micro enterprises under K-rep program in Kisii County. Simple random sampling technique was used to obtain a sample of 86 micro enterprises. A structured questionnaire was pre-tested for validity and reliability which was then administered to 86 youth micro entrepreneurs to collect primary quantitative data. The data were analyzed using descriptive statistics such as mean, percentages and frequency. A multiple regression analysis and Pearson correlation coefficient was used to establish strength, direction and significance of relationship between extent of provision of micro finance and performance of micro enterprise. Data were presented using tables and graphs. The study findings indicated that provision of micro finance had significant effect on the performance of micro enterprises. To enhance the performance, the study recommended inclusion of micro insurance in the microfinance package, extension of grace period from 1 to 3 months, raising minimum loan size and providing varying loan sizes to meet diversified business needs of youth entrepreneurs.

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LIST OF ABBREVIATIONS

MFIs	Micro Finance Institutions
AMFI	Association of Microfinance Institution
ILO	International Labour Organization
ROSCA	Rotating Savings and Credit Association
ASCRS	Accumulating Savings and Credit Association
KWFT	Kenya Women Finance Trust
GDP	Gross Domestic Product
NGOs	Non Governmental Organizations
K-Rep	Kenya Rural enterprise
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
FSD	Financial Sector Deepening

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The first-ever Global Youth Micro enterprise Conference was held in Washington, D.C. September, 2007. Fiona (2007), in his report on Youth Micro enterprise and Livelihoods, observed that With the global youth populations reaching a historical high of 1.5 billion, economies world-wide are increasingly unable to provide young people with jobs. As youth employment grew by only 0.2 percent over the past decade, the global youth population grew at a rate of 10.5 %. In Kenya, the ministry of Youth and Sports (2008) report indicates that the youth aged 18-35 years are 13 million or about 37% of the population. Of the 13 million youth, less than 50% are in gainful economic activities in the formal, informal and public sectors of the economy while majority are unemployed.

Provision of micro finance to the youth has been considered an innovative and sustainable approach with which the youth can engage in micro enterprise activities to generate income so as to improve their livelihoods and contribute to economic growth. Micro finance refers mainly to small loans and savings extended to poor people so they can undertake self employment projects that generate income. Rural-based micro finance programs in particular have the potential to help poor people perform business activities through which they may acquire employment as well as income. This is in view of the fact that the MSE sector has a potential to create wealth and employment as demonstrated in previous studies (Aryeetey, 1997).

This informal sector has grown steadily in almost all developing countries. ILO (1998) indicates that in Latin America, 8.4 of every ten new jobs created between 1990 and 1994 were in the informal sector; in Asia informal sector absorbs between 40% and 50% of the urban labour force. In Kenya, the 2003–07 Economic Recovery Strategy (ERS) for Wealth and Employment Creation provides the road map for economic recovery. The paper estimated that MSEs contribute 20 % and 72 % to the GDP and employment respectively. Hence, when the ERS anticipated creating 500,000 jobs annually, 88 % of

the targeted jobs were to be created in MSEs with the aim of reducing poverty rates from 56.7 % to 51.8 %. (Ministry of Planning and National Development 2003).

Lack of credit has however been identified as one of the main constraints facing MSEs and hindering their growth (Okech,2000; Tomecko & Dondo,1992; Kiiru 1991).Given that the vision of micro finance is to promote the growth of micro enterprises, finance MFIs have experienced rapid growth to alleviate this situation. One such institution is the Kenya Rural Enterprise Program (K-REP), a nongovernmental organization that was started in 1984 under the funding of the USAID. Today, K-REP is fully licensed as a bank and offers a wide range of banking services in addition to its micro finance specialty (Dondo, 1991). K-REP operates two major loan programs for micro and small entrepreneurs, Jihudi and Chikola. Each Jihudi group consists of three to eight individuals. The Chikola loan program works through existing rotating savings and credit self-help groups that are comprised of individual micro entrepreneurs (Kioko, 1995). From 2006 to 2009, K-Rep Kisii branch has micro financed 110 Youth micro enterprises to the tune of K.Sh 15 million. The loans with minimum amounts of Ksh.15000 are given to individuals with group members guaranteeing one another. Members contribute some amount regularly, towards a group savings fund (Karanja, 1996). The proportion of required savings to amount borrowed increases with loan size. These savings, which serve as collateral for loans, is deposited into the group's account (Oketch, 2000).

To date, a number of MFIs including K-Rep, Equity bank, KWFT, Faulu etc provide micro finance services to the low income groups for purposes of starting or developing income generating activities. FSD (2009) indicates that MSEs access to credit has increased greatly from 7.5% in 2006 to 17.9% in 2009. However, a recent study by Bowen et al. (2009) shows that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment. Only 2.5 % respondents posted very successful businesses.

1.2 Statement of the Problem

Micro and Small Enterprises (MSEs) sector contributes 20% to the GDP of the Kenyan economy. Previously, lack of access to credit has been identified in a number of studies as one of the main constraints hindering the growth of this sector. The vision of micro finance is to promote the growth of micro enterprises. In pursuit of this vision, the rapid growth of Micro Finance Institutions (MFIs) has made MSEs access to credit more than doubled from 7.5% in 2006 to 17.9% in 2009. Despite this increase, a recent study has shown that over 50% of MSEs continue to have a deteriorating performance with 60% of MSEs failing within months of establishment. This brings to question the effectiveness of the role of micro finance in promoting growth of micro enterprises. This study therefore sought to evaluate the effect of provision of micro finance on the performance of youth micro enterprises under K-rep program in Kisii County.

1.3 General Objective

The general objective of this study was to evaluate the effect of provision of micro finance on the performance of micro enterprises owned by the youth in Kisii County.

1.3.1 Specific objectives

The specific objectives of this study were to:

- i. determine the provision level of micro finance to Youth micro entrepreneurs;
- ii. determine the performance of Youth micro enterprises; and
- iii. establish the relationship between the extent of provision of micro finance and performance of micro enterprises.

1.4 Research Questions

Based on the above objectives, this study sought to answer the following research questions.

- i. What is the provision level of micro finance services to Youth micro entrepreneurs?
- ii. What is the performance of Youth micro enterprises?
- iii. What is the relationship between the extent of provision of micro finance and performance of Youth micro enterprises?

1.5 Significance of the Study/ Justification

Microfinance service providers, microfinance promoters, and development policy makers may use the findings of this study to improve microfinance products and services as well as to justify investment in the sector. The findings may also add to the existing body of knowledge regarding the role of micro finance in promoting growth of micro enterprises.

Most of the studies on effect of provision of micro finance on performance of micro enterprises focus on women entrepreneurs. Little empirical evidence exists for Youth entrepreneurs and therefore formed the basis for justification of this study.

1.6 Assumptions of the Study

The study was based on the assumption that the sample taken represented the population. The Questionnaire used in data collection was valid and measured the desired constructs. It was also assumed that the respondents under study responded more objectively and were truthful in revealing information regarding micro finance services and enterprise performance.

1.7 Scope and Limitations of the Study

This study was conducted in October 2010, focusing on micro enterprises under K-Rep micro finance program in Kisii County. It only evaluated the effect of provision of micro finance on performance of micro enterprises owned by the youth. Furthermore, the study considered micro finance as the independent variable measured by credit provision, savings mobilization and micro enterprise investment training while performance of micro enterprise as the dependent variable with income, loan repayment and savings as indicators.

The study being restricted to K-rep and its youth clients in Kisii County only may limit generalization of the study findings to other MFIs and their clientele found in other geographical locations in Kenya. Similarly, restriction to the use of questionnaire as the only tool for data collection locked out other vital data collection tools like document

analysis, interview and observation. Furthermore, subjective performance measures were used as opposed to objective performance measures due to unavailability of financial performance data from youth micro enterprises.

1.8 Operational definition of terms

Youth: Male or female person in the age bracket of 18 to 35 years

Micro finance Institution (MFI): An organization engaged in extending credit savings and micro enterprise investment training and other non financial services to poor borrowers for income generating and self employment activities.

Micro finance: Provision of credit, savings mobilization, micro enterprise investment training and other non financial services to Micro-entrepreneurs without tangible collateral but whose activities are linked to income generating ventures

Financial services: Money management that helps people to turn their savings into lump sums for investments.

Savings: making deposits out of income and foregoing its current use in order to draw a lump sum in the future or cash held from day to day expenditure by an act of will.

Sustainability: Ability of an organization to continue being involved in development work even after donors funds phase out.

Financial viability: Ability of financial intermediary to cover all its costs including loan losses, services its equity capital and long term loans from the services provided by clients.

Informal finance: Totality of legal activities and transactions that are not regulated by central banks.

Financial intermediaries : Organization that provides financial medium of exchange to their clients by collecting savings from depositors, donors and making the same funds available to borrowers who need loans to finance their investments.

Collateral: A borrower's property pledged to lender to secure loans or any other legally accepted pledge in exchange for loans borrowed

Micro-entrepreneurs: lowest level business people involved in production, trading, and service activities and which operate mostly as single business owners or those that employ up to 5 employees.

Micro enterprise: Lowest level business generating activities using simple labour intensive technology employing capital base up to a maximum of Ksh.100, 000 with up to 5 employees. They may or may not have licences or registration from local authorities or central government.

Micro enterprise growth: The ability of enterprise to sustain, expand and meet her cost of operations from the income earned from sales of goods and services offered.

Institutional arrangement: Network organization aimed at enhancing the participating management of all stakeholders in organization activities.

Delivery policy: Rules and regulations set in place by the organization to govern service delivery activities.

Delivery methods: System adopted by institution to channel services to clients.

Grameen banks: Models of banks using guarantee mechanism as main collateral and stresses local ownership in financial and non financial service provision to members who are main clients of the institution.

Credit: Money borrowed for immediate use and meant for repayment with interest at a future date.

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CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Micro Finance

Khan and Rahaman (2007) argue that micro finance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then, several microfinance institutions have come up and succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies with time for the fulfillment of their vision. This includes the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers are organized into groups and peer pressure among them reduces the risk of default.

Ledgerwood (1999), Christen and Rosenberg (2000) perceive the concept of Micro finance as the provision of financial and non financial services to low income groups without tangible collateral but whose activities are linked to income- generating ventures. These financial services include savings, credit, payment facilities, remittances and insurance. The non-financial services mainly entail training in micro enterprise investment and business skills. Roth, (2002) believes that micro finance encompasses micro credit, micro savings and micro insurance.

Wright (1999) points out that with the passage of time, there has been an increasing emphasis on the importance of offering a range of quality, flexible financial services in response to a wide variety of needs of the micro entrepreneurs. Micro finance is offered by the Micro Finance Institutions (MFIs). The MFIs include Non-Governmental Organizations (NGOs); Savings and Credit Cooperatives (SACCOs); specialised government banks and private commercial banks. MFIs vary widely by organisational type, scale of operations and levels of professionalism.

2.1.1 Characteristics of Micro Finance

Von, (1991) maintains that micro finance came into being from the appreciation that micro entrepreneurs and some poorer clients can be 'bankable', that is, they can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Micro finance as a discipline has created financial products and services that together, have enabled low-income people to become clients of a banking intermediary.

Micro finance products are characterized by little amounts of loans and savings. The loans are short- term (usually up to a term of one year). Payment schedules attribute frequent installments (or frequent deposits) comprising both principal and interest, which is amortized in course of time. Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time. Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the client's financial and social status.

Application procedures are simple with short processing periods (between the completion of the application and the disbursement of the loan). The clients who pay on time become eligible for repeat loans with higher amounts. The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates. No collateral is required contrary to formal banking practices. Instead of collateral, micro finance institutions use alternative methods, like group guarantees, savings pattern and the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

2.1.2 Provision of Loan

Vogel, (1984) points out that whether you are preparing to launch a start up or want to grow your business, one thing is for certain: you need money. Debt and equity financing are two different financial strategies. Taking on debt means borrowing money for your business, whereas gaining equity entails injecting your own or other stakeholders' cash into your business or company. Loan which is money borrowed for immediate use and meant for repayment with interest at a future date is basically debt financing.

Business owners may have some trepidation about borrowing from a financial institution, as it means relinquishing some cash profits. But it could be a good option so long as you expect to have sufficient cash flow to pay back the loans, plus interest. The major benefit for debt financing, unlike with equity financing, you will retain full ownership of your business. The interest on business loans is also tax-deductible, and you will build your credit.

These loans are generally granted either on a short-term basis of less than one year or long-term basis of more than one year. Short Term Debt Financing usually applies to money needed for the day-to-day operations of the business, such as purchasing inventory, supplies, or paying the wages of employees. Short term financing is referred to short term loan because scheduled repayment takes place in less than one year. A line of credit is an example of short term debt financing. Long Term Debt Financing usually applies to assets your business is purchasing, such as equipment, buildings, land, or machinery. With long term debt financing, the scheduled repayment of the loan and the estimated useful life of the assets extends over more than one year. Since banks and other lenders may be hesitant to offer long-term debt financing to small business owners, the MFIs offer guaranteed lending programs. These programs reduce financial risks to lenders making it easier for micro enterprises to obtain long-term debt financing.

2.1.3 Savings Mobilization

Scott, (2003) defines savings as income not spent or differed consumption. The savings mobilization has recently been recognized as a major force in microfinance. In the past, micro finance focused almost exclusively on credit; savings were the "forgotten half" of financial intermediation. The importance of savings mobilization has been highlighted in several papers in the context of micro finance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are employed by various institutions and are then compared to the results. Deficiency of savings facilities creates problems at three levels: (i) at the individual level, (ii) at the level of the financial institution; and (iii) at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor. Microenterprise programs can play a significant role to foster savings among the poor populations, with considerable benefits both for the savings and for the programs.

Harper, (2003) says that Domestic Savings provide the assets for the economy's investment in future production. Without them, the economy cannot grow unless there are alternative sources of investment. People's propensity to save varies significantly. Common astuteness states that as a person's disposable income increases, so does his or her capacity and willingness to save.

In Grameen Bank of Bangladesh, savings are used as a tool to prepare the borrowers to manage credit. Prospective borrowers make weekly savings deposits, and their credit eligibility is based on their capability to maintain self-discipline in saving. Each borrower must save around one Taka or US\$0.04 every week through his or her group. In addition, 5 percent of each loan amount approved is set aside at the time of disbursement. This money goes into a group fund supervised by the respective group and is designed to

provide social loans to its members in emergency. Each group sets the conditions for distribution of loans.

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Generally, MFIs savings mobilization approach in encouraging consumption in favor of savings is to provide the much needed financial micro enterprise growth. The savings come from the income generated from enterprise activities. Such savings accumulate into a lump sum in the future as retained earnings. The retained earnings are used for refinancing or reinvestment in business. They can be used to expand the enterprise by acquiring additional income earning assets that result in increased income in future years. Since the retained earnings are part of the owners' equity, it can also be used to pay off debt. Savings or retained earnings are a component of a client's net worth and increase the supply of credit for subsequent credit application or asset financing.

2.1.4 Training in Micro Enterprise Investment

Webster and Fidler, (1996) advocate that in many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds. Micro enterprise investment training mainly addresses capital investment decisions. The capital investment decisions can also be termed as capital budgeting in finance. The purpose of the capital investment decisions includes allocation of the micro enterprise capital funds most effectively in order to ensure the best return possible. Since these decisions are related to fixed assets, they have direct bearing on earnings since it is fixed assets which earn profits for the enterprise. Besides, these decisions relate to the commitment of large amount of funds for long periods of time. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise. On the other hand, sound capital budgeting decisions will have a very salutary effect on its wealth creation. There may be various criteria for selecting the right and appropriate decision for capital investment. For example, a firm may emphasize on the projects that promise immediate return while some other firms may insist on the projects that ensure long term growth. The major goal of capital investment decision is to increase

the value of enterprise by undertaking the right project at the right time. The capital investment decisions are mainly governed by the process of ranking and identifying the capital investments of the enterprise. The firm needs to decide which of the given investments will ensure the most value to the business.

The decisions of capital investment often suffer from a number of constraints. The amount of capital that an entrepreneur collects is limited and it brings down the constraint on the choice of the enterprise over various project investments. As the debt of the enterprise is increased, the debt-equity ratio of the enterprise also gets increased and hence it becomes difficult for the business to raise more debts. The decision of project ranking plays significant role in the decisions of capital investment. Depending on the various projects the enterprise is having at a certain period of time, the enterprise prioritizes the projects. The various criteria that are taken up while taking the investment decisions are based on the type of the projects, the requirements of the projects, the return that is promised by the project, life time of a project and the duration of the return value of the project. There are various measures that give the estimation of the return of the firm over various investment projects. In order to determine the value of a particular project, three most famous methods are – Internal Rate of Return (IRR), Net Present Value (NPV) and Payback Period method. These methods are applied while taking decisions on capital investment.

2.1.5 Micro Finance Models

In spite of having innovative ideas for business, if there is no access to financial resources, these ideas go in vain. Microfinance changes whole scenario and reaches out poor to materialize their ideas and get financial benefits. There are two main approaches, one is very famous Grameen Model, originated from Bangladesh and the other is Banco Sol, in Bolivia.

2.1.5.1 Grameen Model (1976)

This model was developed by Muhammad Yunus when he established the Grameen Bank in Bangladesh. In this model, a primary unit (group) of 5 members are lent money upon

loan application.. In first round, loan is granted to two members to invest in their business. If these two members become successful to repay the amount, then four to six weeks later, the next two members are granted loan. The last one member will be eligible for loan if the previous two repay their loan successfully. Repayment of loan opens the door for a next loan and then this goes on if all members repay their loan successfully. If anyone of the group members defaults, the whole group will be disqualified from further loan application.

Rehman, (2007) advocates for each group to have its own president and secretary to coordinate all activities among their own group and other groups. Eight groups are then organized at center level, by which a bank officer deal with all these eight groups. This center of eight groups has its own center chief and center group leader. In Grameen model, unique and innovative approach of group lending is used.

Sengupta and Aubuchon (2008) described the benefits of group lending. First, a group organizes its members who are neighbors to each other, those who can understand each other well and recognize each other's needs. Second, if anyone of the group members will not be present in a group meeting, the leader or another member can pay his or her installment. We can say that there is a kind of mutual understanding between all members. Third, in South Asia generally, and in Bangladesh specifically, there are social pressures among members of society with social bindings within them. If one member of the group will not pay even one installment, social pressure will be levied from all the eight groups on this member. Ultimately he or she will pay the installment. This leads to the reduction of risks.

2.1.5.2 Progressive Lending-Banco Sol Model

This model was adopted by Banco Sol – a micro finance institution in Bolivia. Agion and Morduch (2005) emphasized that Grameen model of microfinance concentrated on lending to villagers and kept loan lending in smaller amounts. The other core concept of model is formation of groups and these groups are eligible to take loan, no option of loan for individuals. The Idea of progressive lending was introduced to lend loans to

individuals within groups. The amount of loan increases after completion of every repayment schedule. But other characteristics of Grameen model (Group lending) are included in this method, like targeting the poor women, group formation and public payment.

Progressive lending is an extension of group lending (Grameen Model) but now many MFIs are adopting this approach. In this model of “Progressive lending”, micro lenders are flexible about collateral and lend loan to groups and also individuals. This method is very helpful in areas with low population densities or highly diverse population where forming groups is not so easy due to different ratio of safe and risky borrowers. In Bolivia, there was a different situation when populist regime left government and there was a high rate of unemployment in urban areas. To come to fulfill the need of time, Banco Sol started operations in microfinance with progressive lending. Therefore, we can say that microfinance approaches have evolved due to different political, ideological and social conditions.

2.2 Review of Empirical Literature

Mochona, (2006) studied the impact of microfinance in Addis Ababa-Ethiopia. He assessed the impact of microfinance on women micro enterprises that were clients of Gasha Microfinance Institution. The research findings indicated that only a few of the women clients of the Gasha Microfinance Institution reported increased incomes from their micro enterprise activities. It was also noted that majority of the respondents expressed dissatisfaction with the loan processing procedure and time taken to secure the loan. Most present and ex-clients faced major risks in running their businesses and therefore dropped out of the micro finance program as they were pushed into indebtedness and could not repay the loans. Although savings were made regularly, majority of the women clients of Gasha Microfinance Institution were unable to build key assets since the savings were dismal. The study recommended giving individual loans instead of group loans and that extending the loans beyond the maximum loan size

ceiling of 2000 Birr to match varying borrowing powers of clients may meet credit and business needs of diversified clients. Also, improving technical and business skills of clients through training will enhance their business skills to use credit and establish market channels for their products until they do that independently. Micro insurance schemes could also be established to enable poor clients to pool risk and share losses that individuals may not withstand.

Aczel ,(2000) conducted a study in Thailand on the role of microfinance in supporting micro entrepreneurial endeavor. The findings of the study indicated that the involvement of microfinance institutions in promotion of micro enterprise and processing industry plays a key role in economies of developed countries as a source of goods and services, income, savings and employment. Furthermore, the industry provides information, knowledge, and skills and often links entrepreneurs to information service providers. On the same note, Christen ,(2001) in his studies based in developed countries argues that the number of micro entrepreneurs ,size and employment potential justifies the programs and attention given by the micro finance to alleviate micro entrepreneurs constraints and improve their business performance .He observed that in the US , micro and small enterprises of less than 20 employees in 1995 created 1.8 million new jobs and recorded improved income. The savings from the business activities was insignificant but there was 98% loan repayment rate.

Rahmat and Maulana, (2006) researched on the Impact of Microfinance to Micro and Small Enterprise's Performance Indonesia. Results of the study indicated that Microfinance has positive impact to improvement of MSE's performance indicated by sales. Doubling the amount of loan was found to have a negative impact on the performance indicated by income and savings. To address this negative impact, the recommendation was that it is very important to allocate the loan to the productive activities, such as investment, in a way that improves the business opportunity.

Ojo, (2009) in his research: the role of micro finance in entrepreneurship development, found out that there was a significant difference in the number of entrepreneurs who used

Microfinance Institutions and those who do not. Microfinance is sustainable to the development of entrepreneurship activities in Nigeria and that Microfinance has affected entrepreneurship in the country positively. He concluded that Microfinance institutions have a positive relationship with the Nigerian economy represented by expanded GDP. Although the interest rate is not significantly influential, the results of findings of this study can still be summarized that the microfinance institutions and their activities go a long way in the determination of the pattern and level of economic activities and development in the Nigerian economy. Recommendations were that the financial institutions need to put more effort in financing MSEs, their role need to be felt by the MSEs in terms of growth and development. The financial institution whose role needs to be visible in promoting MSEs growth and development is microfinance. MSEs themselves should be more receptive to new ideas and prepared to make financial commitments to ensure growth.

Matovu, (2006) researched on microfinance and poverty alleviation in Uganda. His objective of study was to examine the impact of microfinance on rural women in Kayunga- central Uganda. He used both questionnaire and semi-structured interview in data collection. According to research findings, majority of women clients of Uganda Women Finance Trust had registered increased incomes from their microenterprises. From these incomes they were able to solve some problems of poverty like isolation, physical weaknesses and could afford a good diet. They were also able to send their children to school and to pay for their health which is critical for their continued wellbeing and as a consequence break the poverty trap. The findings also reported that clients increased incomes enabled them to save and to buy property. The savings enabled clients to deal with severe crises and to cope up with the shocks and reduce vulnerability and bought property that can be sold also to deal with the crises; savings could be used to acquire another microfinance cycle and also to start and expand the existing micro enterprise activities. In terms of empowerment, majority of women felt that their position in the family had been strengthened, set up businesses and run them, could occupy a political office at local levels and had attained a real change in their lives and self-esteem when they compare themselves to that period before the program. He suggested need for

more future research that must focus on a deeper understanding of poverty alleviation since microfinance is only treating the symptoms than attacking the real causes. The issue of women and youth empowerment as a result of microfinance programs also requires more research.

Kessy, (2009) researched on Microfinance and Enterprises Performance in Tanzania. The purpose of research was to examine whether there is a difference in performance among the female owned enterprises and male owned enterprises. The study focused on the clients of microfinance institutions with premises that Microfinance institutions enable enterprises owner to develop their micro and small enterprises, which enhance their income earning capacity, and hence enjoy an improved living standard. The findings of the study revealed that enterprises generally recorded increase in sales, savings and assets. However, female owned enterprises grow slowly compared to male owned enterprises. Although the results did not evidence statistical differences on average sales revenue between male owned enterprises and female owned enterprises, the level of savings, assets and number of employees were different among these two groups. Different motives of owning and running businesses were also observed among the groups. In actual fact, females were observed to be risk averse compared to males. Due to risk averse it is clear that the returns of female owned enterprises were also expected to be low. He recommended the need for training in micro enterprise skills as a component of microfinance as it will assist female entrepreneurs to change their behaviour and how they perceive business activities and risk management.

Mushimiyimana, (2008) in her research; Analysis of access to MFIs loans by women entrepreneurs and impact on their business, found that most women entrepreneurs in Nairobi Central business district had accessed MFIs loans and that their businesses were able to employ more staff than before. Income in 97% of the businesses increased after being given the loan. Only 3% did not register improved income. The study found that 52% of women entrepreneurs agreed that failure to repay their individual or group loans had impacted negatively on their business performance. The defaults were due to high interest rates. It was also revealed that major difficulties that women face when sourcing

for funds included: lengthy process (22%), lack of collateral (21%), lack of education (19%), and default by member group (17%). The grace period of one month was not satisfactory to 60% of those interviewed. She recommended that MFI should consider the size of the business and offer a loan that can allow it to grow faster and take opportunity of rising demand. The grace period be extended to six months so that the loanees can use the money they have invested from the loans to make repayments. This will also give them an ample time to invest the money. To the researchers, she recommended further research on the effect of micro finance on micro enterprises owned by the youth entrepreneurs, given the unemployment and poverty challenges facing the youth.

K'Aol, (2008) in his research paper: *The Role of Microfinance in Fostering Women Entrepreneurship in Kenya*, assessed the impact of Microfinance funding on women entrepreneurship in Kenya. The population consisted of women entrepreneurs who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans from K-REP. The most significant impact evident among the women entrepreneurs involved in farming activities was that the number cattle they owned had doubled after taking the loan. It was also revealed that MFIs often use monitoring and evaluation as a tool for measuring the impact or performance of their programs. However, it was noted that most MFIs carried out impact evaluation exercises to satisfy the conditions laid down by donors. This implied that as MFIs such K-REP become financially independent, less attention would be paid to monitoring and evaluation exercises mainly because of cost implications. Nevertheless, monitoring and evaluation carried out in a consistent and orderly fashion, helps in aligning the needs of clients with the implementation strategies thereby leading to a positive impact of the loan program. He recommended that further impact assessment of the micro finance program should be extended beyond women entrepreneurs to other vulnerable groups such as the youth.

Bowen, (2009) researched on *Management of business challenges among small and micro enterprises in Nairobi Kenya*. The findings of the research indicated that over 50%

of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment. Only 2.5 percent respondents saying their businesses were very successful. The results also showed that 49.5 percent of those who had received training in their areas of business reported that their businesses were doing well. He recommended that there is need to get trained in an area that is relevant to the business carried. Further studies was suggested to establish if this is the case in rural areas or if the rural areas present unique challenges that are not shared by their urban counterparts.

Atieno, (2009) researched on Linkages, Access to Finance and the Performance of Small-Scale Enterprises in Kenya. The paper examined whether linkages between MSEs and financial institutions affect the enterprises' ability to access financial services and their performance. The data were collected through a survey of 322 sampled MSEs among women entrepreneurs in Kisumu and Eldoret. The results showed that small-scale enterprises have different, albeit limited, forms of linkages with financial institutions. Despite the limited linkages, the results show that some linkages provide advantages to the enterprises which are reflected in their improved performance. Further research on youth entrepreneurship and micro finance programs linkage was suggested.

In conclusion, the literature review on the empirical studies reveals that a lot of research has been done in the area of impact of microfinance on performance and growth of enterprises in general with a lot of bias on women entrepreneurs. However, little research exists concerning assessment of microfinance programs and performance of micro enterprises among the youth entrepreneurs.

2.3 Conceptual Framework

This section presents a conceptual framework that shows the interplay among micro finance components of Loan provision, savings mobilization and training in micro enterprise investment as independent variables, micro enterprise performance as the dependent variable. Intervening factors are also indicated.

Independent Variable

Dependent Variable

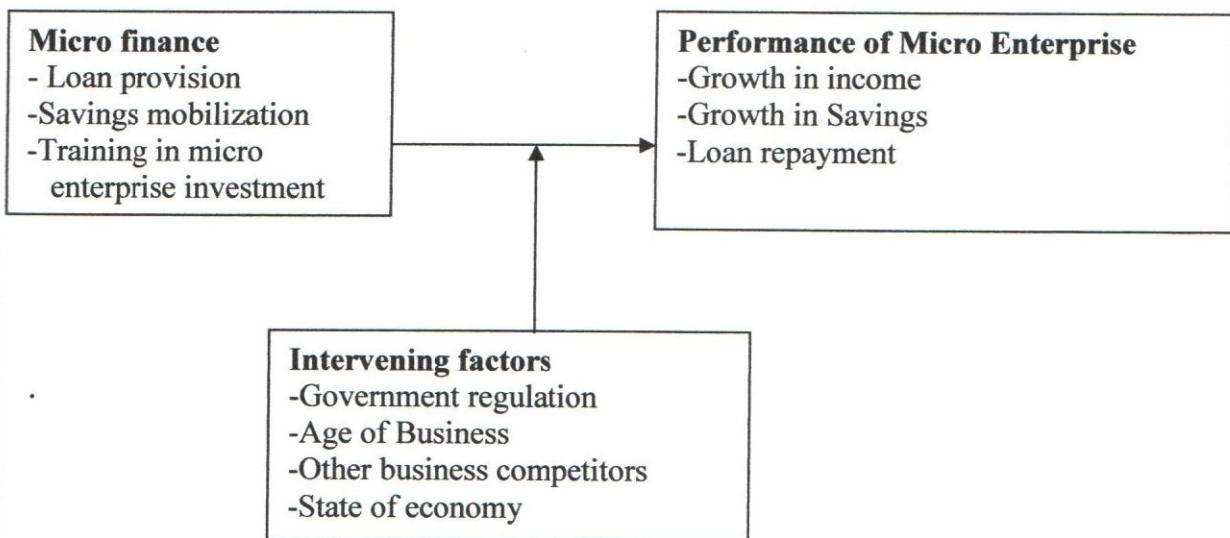


Figure 1: Conceptual framework

Source: Researcher, (2010).

Microfinance services offered by MFIs are expected to have a direct bearing on the extent of micro entrepreneurs' financial empowerment. The loans provide the financial empowerment of the entrepreneur to establish a micro enterprise. The established micro enterprise generates income which provides savings that forms retained earnings and also used to pay back the loan. The savings mobilization enhances credit worthiness of a micro entrepreneur and also attracts subsequent funding. The subsequent loan together with savings are reinvested in the business for expansion purposes that results in increased income, further savings and increased loan repayment ability. The microenterprise training especially in light of capital investment decisions, basic business skills and business risk management affects viability and profitability of micro enterprises initiated and sustained. This in turn has a bearing on performance of micro enterprise. Micro enterprise performance also depends on other non financial factors such as government regulation age of Business, other business competitors and state of economy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design.

This study used a cross-section survey design. Mugenda (1999) perceives a survey as an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. Surveys can be used for explaining or exploring the existing status of two or more variables at a given point in time. Survey research is probably the best option in collecting original data for the purpose of describing a population which is too large to observe directly.

3.2 The Study Area

The study was conducted in Kisii County. The researcher preferred the area because he is familiar with it and currently teaches there. The County has a topographic profile that is hilly in nature with productive soils. Kisii town is the administrative headquarters of Kisii County where K-Rep is located.

3.3 The Target Population

The target population consisted of 110 Youth micro entrepreneurs under the K- Rep Micro Finance Program in Kisii County.

3.4 Sampling techniques and Sample Size

Yamane (1967) formulated a sample size formula that can be used scientifically to generate a sample size from a given population of study. Simple random sampling technique was used to obtain a sample of 86 respondents as indicated by the formula below:

$$\begin{aligned}
 n &= \frac{N}{1 + N(e)^2} \\
 &= \frac{110}{1 + 110(0.05)^2} \\
 &= 86
 \end{aligned}$$

Where n is the sample size
 N is the population
 e is the level of precision

(Yamane 1967)

3.5 Research Instrument

A structured questionnaire based on a five- point likert scale response items was used to collect primary quantitative data. The questionnaire was designed to elicit responses relating to micro finance services such as provision of loans, savings mobilization and micro enterprise investment training. It also aimed at gathering data concerning the performance in terms of income, loan repayment and saving from micro enterprise activities. Subjective performance measures were selected over objective measures since objective financial data on the majority of the sampled micro enterprises were likely to be publicly unavailable, making it difficult to check the accuracy of any financial data reported.

3.5.1 Validity and Reliability of the Research Instrument

Borg and Gall, (1989) defined validity as the degree to which a test measures what it purports to measure. Content validity was addressed by giving the questionnaire to two supervisors to identify items that were inadequate and made necessary corrections. For face validity, a pre- test was administered to 15 Youth micro entrepreneurs in Nyamira District who were clients of K-rep but were not included in the study sample, so as to examine responses and correct any ambiguity in the questions.

Borg and Gall considers reliability as the degree of consistency that the instruments or procedure demonstrates whatever it is measuring, it does so consistently. They further define reliability as a level of internal consistency or stability over time of the measuring research instruments.

The Cronbach's Alpha coefficient was used to measure the reliability of the Likert-Type Scale for multiple items in the research instrument. This was based on the formula:

$$\text{Alpha} = \frac{Np}{[1+p(N-1)]}, \quad \text{where } N \text{ is the number of items}$$

P is the mean inter-item correlation

The obtained cronbach's alpha coefficients for loan, savings mobilization, micro enterprise investment training and micro enterprise performance were 0.81, 0.76, 0.77 and 0.86 respectively. These values are greater than the 0.70 threshold (Gliem, 2003).

Roscoe (1969), states that the split-half method can be used to establish internal consistency. This involves splitting the instruments into two; one half of even numbered items and the other of odd-numbered items. The correlated results value provides the internal consistency of one half that is the degree to which the two halves of the test are equivalent or consistent in terms of items. The coefficient is obtained through Pearson product moment formula.

$$\text{Reliability of entire test } R^2 = \frac{2(\text{reliability of } 0.5\text{test})(r)}{1 + (\text{reliability of } 0.5\text{test})(r)}$$

That is
$$R^2 = \frac{nr}{1+(n-1)} \quad \text{Where; } R^2 = \text{correlated reliability}$$

r = uncorrelated reliability
 n = number of parts ($n=2$)

Therefore, to test reliability of the questionnaires, the 15 questionnaires used in the piloting were divided into two parts; one with 8 and the other comprising 7 so as to calculate the correlation coefficient. A correlation coefficient of 0.83 was obtained and considered high enough to judge the reliability of the instrument to be used in the study (Kerlinger 1986).

3.5.2 Procedure of data collection

A letter authorizing data collection obtained from the department of business and management was presented to credit manager K-rep bank-Kisii so as to obtain a list of youth micro entrepreneurs in their program for purposes of obtaining a sample size through simple random sampling and getting to know the contacts and locations of the respondents. A structured questionnaire and a letter stating the purpose of the study were then self administered to each respondent. The answered questionnaires were then collected after three days.

3.6 Data Analysis and Presentation

Data analysis is the process of bringing order, structure and meaning to the mass of data collected. In this study, primary quantitative data were analyzed using descriptive statistics such as frequency and weighted mean to achieve the first objective of determining provision level of micro finance and the second objective of determining performance of micro enterprises. A likert scale was used to obtain the weighted means.

The third objective of establishing relationship between extent of provision of micro finance and performance of micro enterprises was achieved by way of a multiple regression analysis based on the model:

$$Y=f(L, S, T)$$

Where **Y** = Performance of microenterprise

L=Loan

S=Savings mobilization

T=Training in micro enterprise investment

Pearson correlation coefficient was used to determine strength and significance of relationship between extent of provision of micro finance and performance of micro enterprises. Presentation of results was by use of tables and graphs.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Questionnaire Return Rate

Out of the 86 questionnaires administered to the sample size of 86 youth micro entrepreneurs, 82 completed questionnaires were received. This represented 95.3 percent return rate and was considered a good response when using the questionnaire method (Peil, 2005).

4.2 Demographic Characteristics of the Respondents

The first section of the questionnaire sought to gather Demographic information of the youth micro entrepreneurs. This included gender, age, level of education, nature of business and length of time in operation.

4.2.1 Gender

The finding in terms of gender of respondents was presented in figure 4.2.1 below.

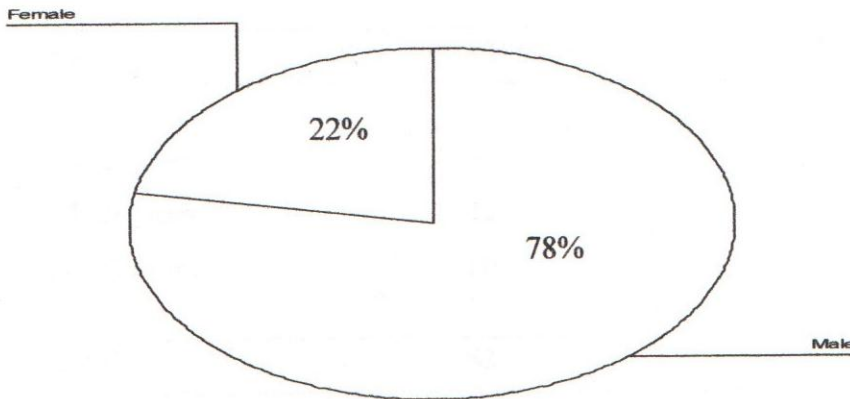


Figure 4.2.1 Gender distribution of Youth micro entrepreneurs

Source: Field Survey (2010)

Figure 4.2.1 above shows that 64 respondents representing 78% of youth micro entrepreneurs were male and 18 representing 22% were female. This represents a gender disparity of youth micro entrepreneurs in the area. Since the percentage of male to female in this study is 78% to 22%, it shows that male youth are the majority of the people that are involved in microenterprises in the study area. This could possibly be attributed to the fact that there is KWFT, a micro finance institution that specifically micro finances women entrepreneurs and therefore most female youth would opt for it. It is also possible to understand from these that K-Rep is providing microfinance services to almost the poorest or needy youth entrepreneurs. However, the real poorest of the poor who could not deserve the institution's 'active poor' status could still be marginalized by the selection criteria and excluded by clients while forming loan groups for failure to win social acceptance and trust.

4.2.2 Age of Respondents

In terms of age, the distribution was 30 respondents representing 36.6 % for those in age bracket between 18-23 years, 42 represented by 51.2% were between 24 -29years and 10 represented by 12.2% were between 30-35years as indicated in table 4.2.1 below.

Table 4.2.1 Age of Youth Micro entrepreneurs

Age	Frequency	Percentage (%)
18-23 years	30	36.6
24-29 years	42	51.2
30-35 years	10	12.2
Total	82	100.0

Source: Field survey 2010

A large percentage of respondents were youth micro entrepreneurs between the ages of 24-29 years. This age bracket is the one most affected by unemployment among the Kenyan youth, since majority of secondary and college/University graduates fall within

this age bracket. It is therefore a progress in the right direction that they are engaging in micro enterprise activities that would enable them get self employment as well as participate in economic development.

4.2.3 Level of Education

Respondents were also grouped according to their highest level of education and it was found that the majority, 57 representing 69.5% had secondary level education. 12 representing 14.6% had Diploma-college level education while those with primary level education were 8 representing 9.8%. The minority were University graduates numbering 5 and representing 6.1%. These results are presented in Figure 4.2.2 below.

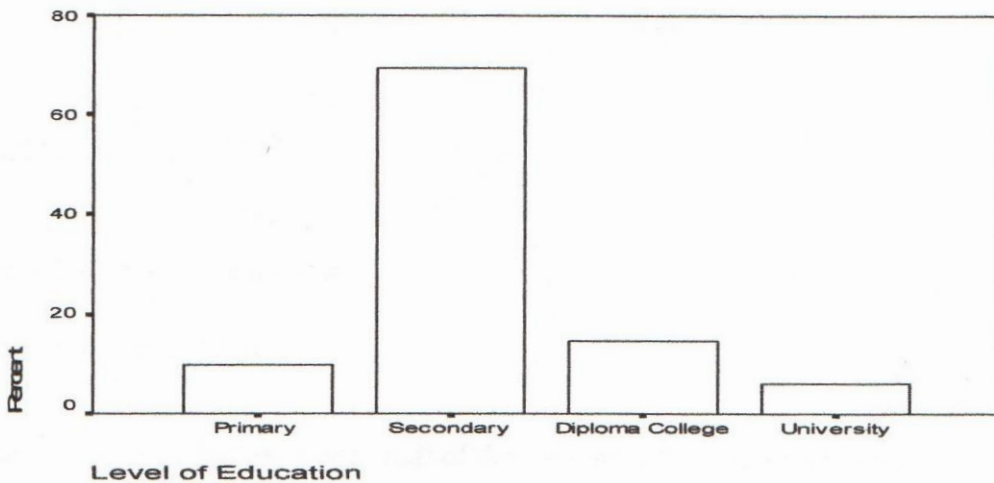


Figure 4.2.2 Distribution of Level of Education of Respondents

Source: Field survey 2010

Educational attainment is a very important characteristic that affects the managerial ability of micro entrepreneurs and may at times have an indirect effect on their entrepreneurial ability. The findings show that majority of the micro entrepreneurs are secondary school graduates and above. Thus, most youth micro entrepreneurs have sufficient level of education and are therefore able to meet the training and management demands in micro enterprise investment. The effects are expected to be reflected in enhanced micro enterprise performance.

4.2.4 Nature of Business

The study found that 51% of the micro enterprises are retail, 26% are in the service sector, 14% in transport while 9% are in other industries. The results were presented in figure 4.2.4 below.

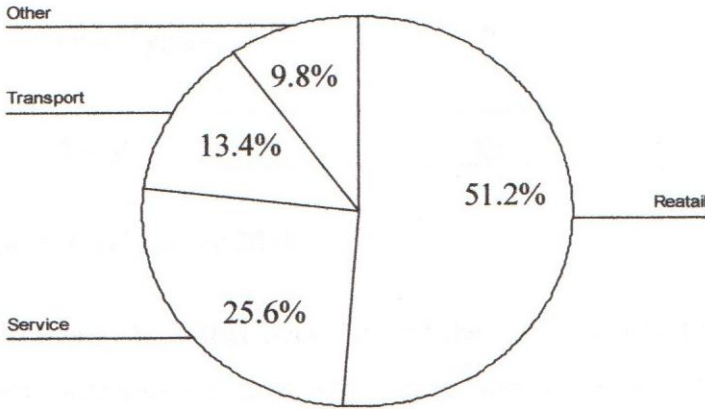


Figure 4.2.4 Nature of Business

Source: Field survey 2010

The analysis shows that more than half of the respondents are in retail business. This is so because the study area is a high potential business hub with many retail outlets distributed all over shopping centers within Kisii County. This finding is consistent with those of Tambunan and Gunardi (2001) who found that loans to the MSE are concentrated in the retail sector in spite of their relative risk to default. They also show that their findings can be explained in the relatively high turnover of the capital in that sector. Conventional banks and MFIs will prefer giving loans to business in that sector than the other two.

4.2.5 Age of the Business

The findings indicated that 41.5% of micro enterprises had been operating for 1 year, 31.7% for 2 years, 14.6% for 3 years, 9.8% for 4 years and only 2.4% had been operating for more than 5 years. The results were presented in table 4.2.5 below.

Table 4.2.5 Distribution of age of business

Age of business	Frequency	Percentage (%)
1 year	34	41.5
2 years	26	31.7
3 years	12	14.6
4 years	8	9.8
Over 5years	2	2.4
Total	82	100.0

Source: Field survey 2010

The results show that over 73% of the businesses had been in operation for merely 2 years while only less than 30% having been in operation for 3 years and more. This could be attributed to high failure rates in micro enterprise activities and therefore majority of them fall out of the micro finance program along the way. Therefore, most of the micro enterprises do not develop into small and hence medium enterprises.

4.3 Provision Level of Micro finance

The first research question sought to determine the provision level of micro finance to Youth micro entrepreneurs. To address this, the respondents were asked to indicate their levels of satisfaction with the loan characteristics, savings mobilization and training in micro enterprise investment. The findings are presented in tables 4.3.1, 4.3.2 and 4.3.3 below.

4.3.1 Loan Characteristics

Table 4.3.1 Distribution of level of satisfaction with loan characteristics

Loan Characteristic	Frequency					$\sum f_i$	$\sum f_i w_i$	$\frac{\sum f_i w_i}{\sum f_i}$
	Most Favourable	Very Favourable	Favourable	Moderately Favourable	Less Favourable			
	5	4	3	2	1			
Timeliness in Loan processing	7	27	22	14	12	82	239	3.04
Interest Rate	16	46	14	4	2	82	316	3.85
Grace Period	1	9	6	10	56	82	135	1.65
Repayment Period	2	9	11	45	15	82	184	2.24
Loan size	0	3	6	31	42	82	134	1.63
Grant of amount applied for	3	3	6	38	32	82	153	1.87

Source: Field survey 2010

The findings from table 4.3.1 above shows that only 7 of the respondents reported that timeliness in loan processing is most favourable. 27 recorded Very favourable, 22 indicated favourable, 14 reported moderately favourable and 12 indicated less favourable. This gave a weighted mean of 3.04 implying that most youth entrepreneurs considered time taken for loan processing as being favourable, suggesting that they were satisfied with the promptness in the way K-Rep processed their loan applications, thus enabling them to meet the business financing demands in time. This could lead to the assumption that micro enterprise performance is enhanced if the financing demands of the micro enterprise activities are addressed and met on time. Prior research by Mushimiyimana (2008), posted similar results in which only 22% of the respondents expressed lengthy

loan processing period while 78% of them expressed satisfaction in the time taken for loan processing, thereby being able to meet the financing demands of their businesses.

In terms of interest rate, 16 of respondents indicated most favourable, a majority 46 recorded very favourable, 14 indicated favourable, 4 indicated moderately favourable and only 2 indicated less favourable. This gave a weighted mean of 3.85. Therefore, it is evident that the loan's interest rate is very favourable to majority of the clients of K-Rep micro finance program. This suggests that the cost of capital provided by K-Rep in the micro finance program is affordable and therefore the clients are able to meet most of the business operation costs that directly impact on the performance of the micro enterprise. However, this finding is contradictory to that of Mushimiyimana (2008) where only less than 10% of the women entrepreneurs reported that the interest rate was moderate to less favourable. This difference could be attributed to the fact that Mushimiyimana's research considered micro finance obtained from a variety of micro finance institutions whereas this study only focused on K-Rep.

Table 4.3.1 also shows that only 1 of the respondents indicated that the grace period was most favourable. 9 indicated very favourable, 6 recorded favourable while 10 indicated moderately favourable. A majority 56 of the respondents reported grace period as less favourable. This translated to a weighted mean of 1.65. This implies that the youth entrepreneurs are not satisfied with the short grace period. It may therefore be assumed that the youth entrepreneurs who are clients of K-Rep do not have ample time to invest the money and use the returns from the investment to start making loan repayments. This has an effect on the capital as not all meant for investment is actually invested and thus may affect performance. Nevertheless, the finding of this study concur with that of Mochona(2006) who studied the impact of micro finance on women micro enterprises that were clients of Gasha Micro finance institution in Ethiopia. He found out that majority of the respondents expressed dissatisfaction with the loan processing procedure and time taken to process the loans.

In their responses concerning repayment period, only 2 reported most favourable. 9 indicated very favourable, 11 recorded favourable while 45 indicated moderately favourable, resulting in a weighted mean of 2.24. This means that the loan repayment period is perceived to be only moderately favourable. This suggests that majority of the respondents were not satisfied with the loan repayment period. This could be because majority of the micro entrepreneurs find it difficult to meet the expenditure demands in running the business as well as repaying the loans within the stipulated period, usually a year. Those unable to meet such demands are therefore liable to fall out the micro finance program.

It was also noted that 42 of the respondents reported that the size of the loan was less favourable. 31 reported moderately favourable, 6 reported favourable while 3 indicated very favourable. None of the respondents reported loan size as most favourable. In this case, a weighted mean of 1.63 was obtained. This suggests that majority of the youth micro entrepreneurs consider the loan amounts inadequate for significant business activities and this could be the reason as to why even with reported indicators of performance, many of the enterprises are unable to develop to the subsequent levels of small and medium enterprises. Similar results were posted by Mochona (2006) where he suggested extending the maximum loan size ceiling of 2000 Birr to match varying borrowing powers of clients so as to meet diversified business needs.

Concerning grant of amount applied for, only 3 respondents reported most favourable and very favourable. 6 indicated favourable, 38 reported moderately favourable and 32 reported less favourable, resulting in a weighted mean of 1.87. This may suggest that majority of the respondents were not granted the loan amounts applied for. Consequently, it becomes difficult for the entrepreneurs to meet the financing shortfall and therefore to some extent the performance of the micro enterprise is affected.

4.3.2 Savings Mobilization

Table 4.3.2 Distribution of level of satisfaction with attributes of Savings mobilization

Attributes of Savings mobilization	Frequency					$\sum f_i$	$\sum f_i w_i$	$\frac{\sum f_i w_i}{\sum f_i}$
	Most Satisfactory	Very Satisfactory	Satisfactory	Moderately Satisfactory	Less Satisfactory			
	5	4	3	2	1			
Savings services	19	46	8	9	0	82	321	3.91
Frequency of savings deposits	16	21	32	9	4	82	282	3.44
Use of savings pattern for credit worthiness assessment	5	9	61	5	2	82	256	3.12

Source: Field survey 2010

The findings in table 4.3.2 above indicated that 19 respondents reported that they were most satisfied with the savings services offered by K-Rep. 46 were very satisfied, 8 were satisfied while 9 were moderately satisfied with the savings services. None of the respondents reported less satisfaction with the savings services. This translated to a weighted mean of 3.91. Therefore, the general view is that majority of the respondents were very satisfied with the savings services provided by K-rep. Hence, it can be assumed that savings mobilization services provided by K-Rep micro finance program aims at alleviating the deficiency of savings facilities which create problems at three levels: at the individual level, at the level of the financial institution; and at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These

alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor. Micro finance programs play a significant role to foster savings mobilization for the micro entrepreneurs. The finding from this study concurs with that of Harper (2003), who found out that micro finance savings services are appropriate as they provide assets for the economy's investment in future production. Without them, the economy cannot grow unless there are alternative sources of investment.

In terms of frequency of savings deposits, 16 respondents reported most satisfactory, 21 indicated very satisfactory while 32 indicated satisfactory. 9 of the respondents expressed moderate satisfaction and only 4 expressed less satisfaction with the frequency of savings deposits, giving a weighted mean of 3.44. The findings also indicated that only 5 of the respondents were most satisfied with the use of savings pattern by K-Rep in assessing credit worthiness. 9 were very satisfied, 61 were satisfied while 5 expressed moderate satisfaction. Only 2 reported less satisfaction, resulting in a weighted mean of 3.12. This implies that majority of the respondents were satisfied with the frequency of savings deposits and the use of savings patterns of clients in assessing their credit worthiness for grant of subsequent loans. It is therefore likely that the subsequent loans secured would be a product of a client's historical savings behavior and in a way encourages entrepreneurs to be disciplined and remain consistent in making savings deposits. In support to the finding of this study, Aczel (2000) found that micro finance savings services provides supporting micro entrepreneurial endeavor as they assure future financial needs for investments. Savings mobilization approach in encouraging clients to postpone consumption in favor of savings is to provide the much needed financial resources for micro enterprise growth. Such savings accumulate into a lump sum in the future and act as retained earnings. The retained earnings are used for refinancing or reinvestment in the business. They can be used to expand the enterprise by acquiring additional income-earning assets that result in increased income in future years.

4.3.3 Training in Micro Enterprise Investment

Table 4.3.3 Distribution of level of satisfaction in achievement of business skills after participating in Micro enterprise investment Training

Skill	Frequency					$\sum f_i$	$\sum f_i w_i$	$\frac{\sum f_i w_i}{\sum f_i}$
	Most Satisfactory 5	Very Satisfactory 4	Satisfactory 3	Moderately Satisfactory 2	Less Satisfactory 1			
Capital Investment Decisions	23	19	26	10	4	82	293	3.57
Basic Business Skills	7	58	13	4	0	82	314	3.83
Business risk management	3	8	17	21	33	82	173	2.11

Source: Field survey 2010

Table 4.3.3 above shows that in terms of achievement of capital investment decisions, 23 respondents reported most satisfactory, 19 reported very satisfactory while 26 indicated satisfactory. 10 expressed moderate satisfaction and only 4 expressed less satisfaction. This translated into a weighted mean of 3.57. The finding also indicated that 7 respondents expressed most satisfaction with achievement of basic business skills. 58 were very satisfied, 13 were satisfied while 4 were moderately satisfied. None of the respondents expressed less satisfaction thus translating to a weighted mean of 3.83. These results show that the majority of the respondents were very satisfied with the achievement of capital investment and basic business skills after training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the youth entrepreneurs to

use funds and hence impacts on business performance (Webster and Fidler, 1996). These results also agree with those of Bowen (2009) where 50% of the entrepreneurs who were trained in their areas of business expressed satisfaction and reflected in terms of business performance. The purpose of the capital investment decisions includes allocation of the micro enterprise capital funds most effectively in order to ensure the best return possible. The decisions of capital investment often suffer from a number of constraints. The amount of capital that an entrepreneur collects is limited and it brings down the constraint on the choice of the enterprise over various project investments. The basic business skills enable the micro entrepreneurs independently carry out economic activities, widen their horizons of business transactions and generally manage the day to day business challenges.

In terms of business risk management, only 3 respondents reported most satisfaction, 8 were very satisfied while 17 were satisfied. 21 expressed moderate satisfaction and 33 reported less satisfaction. With a weighted mean of 2.11, it shows that most of the respondents were moderately satisfied in terms of achievement of business risk management skills. This implies that majority of the youth micro entrepreneurs are unable to adequately deal with business risks and therefore in the event such risks occur, their micro enterprises are significantly affected (Mochona, 2006).

4.4 Performance of Micro Enterprise

The second question sought to determine the performance of youth micro enterprise. To address this, the respondents were asked to rate the performance of their micro enterprises using indicators of growth in income, growth in savings and loan repayment. The distribution of their responses was presented in table 4.4.1 below.

Table 4.4.1 Distribution of indicators of performance of micro enterprise

Indicator of Performance	Frequency					$\sum f_i$	$\sum f_i w_i$	$\frac{\sum f_i w_i}{\sum f_i}$
	Most Satisfactory 5	Very Satisfactory 4	Satisfactory 3	Moderately Satisfactory 2	Less Satisfactory 1			
Growth in Income	5	26	42	6	3	82	270	3.29
Growth in Savings	2	4	54	20	2	82	230	2.80
Loan Repayment	5	14	38	16	9	82	236	2.88

Source: Field survey 2010

From table 4.4.1 above, in terms of growth in income, only 5 respondents were most satisfied, 26 were very satisfied while 42 were satisfied. 6 reported moderate satisfaction and only 3 expressed less satisfaction. Therefore, with a weighted mean of 3.29, majority of the respondents reported satisfactory performance in terms of growth in income. This may lead to the assumption that provision of micro finance affects performance of micro enterprise as indicated by growth in income. Similar sentiments were expressed by K'Aol (2008) and Matovu (2006) who found out that the incomes of majority of the women entrepreneurs had increased significantly after participating in micro finance program. However, much as the results indicate that there was growth in income, the problem lies to what extent and what percentage these incomes of individual clients grew. One cannot be sure whether income measured in this manner is credible. The clients are often exposed to fluctuating incomes which means that they rotate in and out of poverty. The issue that can attract debate is the duration of this income as to how long it can last. Such pervasive fluctuations affect savings and investment. Clients lack proper written records and how they separate business incomes from their private resources is also a tricky issue

which is difficult to measure. In the informal sector it is usually difficult to separate enterprise activities from household economics. It becomes complicated to measure incomes based on perception and not written records.

Table 4.4.1 also shows that only 2 of the respondents were most satisfied with growth in savings. 4 were Very satisfied, 54 were satisfied, 20 were moderately satisfied while only 2 recorded less satisfaction with growth in savings, translating to a weighted mean of 2.80. This implies that in terms of growth in savings, majority of the respondents reported satisfactory performance. On the contrary, findings by Mochona (2006) shows that majority of women entrepreneurs under Gasha micro finance in Ethiopia recorded dismal growth in savings. This difference could be attributed to the group loans offered by Gasha micro finance as opposed to individual loans for the case of K-Rep. Individual loans tend to encourage more accountability.

This study also found that only 5 of the respondents reported most satisfaction with loan repayment, 14 were very satisfied, 38 were satisfied, and 16 were moderately satisfied. Only 9 reported less satisfaction. This gave a weighted mean of 2.88, implying that majority of respondents reported satisfactory performance in terms of loan repayment. This is could be attributed to the favourable cost of capital provided by K-Rep. This result is consistent with that of Aczel (2000) who found out that micro entrepreneurs' loan repayment rate in Thailand was 98%.

4.5 Provision of Micro Finance and Performance of Micro Enterprise

The third research question sought to establish the relationship between extent of provision of micro finance and micro enterprise performance. To address this, a multiple regression analysis and Pearson's correlation coefficient were used.

4.5.1 Multiple Regression Analysis

The multiple regression analysis was used to establish the effect of loan, savings mobilization and training in micro enterprise investment on performance of micro

enterprise. The analysis also shows the relationship between the variables. The regression analysis results are presented in tables 4.5.2, 4.5.3 and 4.5.4 below.

Table 4.5.2 Coefficients

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.507	.402		1.262	.211
	Provision Level index of Loan	.169	.053	.358	3.181	.002
	Provision level Index of Savings Mobilization	.263	.098	.272	3.715	.000
	Provision level Index of Training	.227	.109	.281	2.081	.041

a. Dependent Variable: Performance Index

Source: Field survey 2010

Table 4.5.2 above shows the regression coefficients that were used to obtain the regression equation that shows the relationship between loan, savings mobilization, Training and Performance of Micro enterprise. For this analysis, the regression equation is:

Performance = 0.507 + 0.169 Loan + 0.263 Savings mobilization + 0.227 Training in microenterprise investment.

I.e. $Y = 0.507 + 0.169 L + 0.263 S + 0.227 T$

The signs of the B (unstandardised coefficients column) are positive, meaning that as the magnitudes of the independent variables (Loan, savings mobilization and training) increases, the magnitude of the dependent variable (Performance) also increases.

The standardized coefficients column (Beta coefficients) provides basis for judgment on the relative importance of the variables to the dependent variable. Loan, having the

largest Beta of 0.385 has the largest effect on performance. The second most important variable was training with a Beta of 0.281. The least important predictor of these three variables is Savings mobilization with a Beta of 0.272.

The t-test statistic shows that all the B coefficients of loan, savings mobilisation and training are significant (since $p < 0.05$).

Table 4.5.3 Model Summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963 ^a	.927	.925	.6676

a. Predictors: (Constant), Provision level Index of Training , Provision level Index of Savings Mobilization , Provision Level index of Loan

b. Dependent Variable: Performance Index

Source: Field survey (2010)

From the model summary table 4.5.2 above, R is the correlation coefficient measuring the strength and direction of the linear relationship. The R value is 0.963 and implies a strong positive linear relationship. The R-Square value is the coefficient of determinant (expressed as a percentage) and shows variability in dependent variable explained by the variability in independent variable(s). The R-Square value of 0.927 implies that 92.7% of the variations in the dependent variable (performance) are explained by the variations in independent variables (loan, savings mobilization and training). The adjusted R-Square is a standard, arbitrary downward adjustment to penalize for the possibility that, with many independents, some of the variance may be due to chance. The adjusted R-square is therefore an indicator of generalizability as it is used to estimate the expected shrinkage in R-square that would not generalize to the population because of the solution being over-fitted to the data set by including too many independent variables. In this case, R-Square = 0.927 and Adjusted R-Square = 0.925. These values are very close, anticipating minimal shrinkage based on this indicator.

Table 4.5.4 ANOVA

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	444.221	3	148.074	332.206	.000 ^a
	Residual	34.767	78	.446		
	Total	478.988	81			

a. Predictors: (Constant), Provision level Index of Training , Provision level Index of Savings Mobilization , Provision Level index of Loan

b. Dependent Variable: Performance Index

Source: Field survey (2010)

The result in the ANOVA table 4.5.3 shows the overall significance of the model that is the regression equation. In this analysis, the model is significant (since $F_{3,78}=332.206$, $p<0.05$). Thus, the model is a useful linear model.

4.5.2 Pearson's Correlation Coefficient

Pearson correlation coefficient was used to determine the strength and direction of association between provision of micro finance and performance of micro enterprise. the results were indicated in table 4.5.6 below.

Table 4.5.5 Pearson's product moment correlation coefficient

		Correlations			
		Performance Index	Provision level Index of Training	Provision level Index of Savings Mobilization	Provision Level index of Loan
Performance Index	Pearson Correlation	1.000	.945**	.945**	.947**
	Sig. (2-tailed)	.	.000	.000	.000
	N	82	82	82	82
Provision level Index of Training	Pearson Correlation	.945**	1.000	.746**	.758**
	Sig. (2-tailed)	.000	.	.000	.000
	N	82	82	82	82
Provision level Index of Savings Mobilization	Pearson Correlation	.945**	.746**	1.000	.637**
	Sig. (2-tailed)	.000	.000	.	.000
	N	82	82	82	82
Provision Level index of Loan	Pearson Correlation	.947**	.758**	.637**	1.000
	Sig. (2-tailed)	.000	.000	.000	.
	N	82	82	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field survey (2010)

From correlations table above, all correlations are significant ($P < 0.01$). The correlations 0.947, 0.945 and 0.945 show a strong positive relationship between the loan, savings mobilization and training respectively (as independent variables) and performance (as dependent variable). The correlations among the independent variables are less than 0.800, indicating absence of multicollinearity.

The result of the study revealed that the provision of loan, having the largest Beta of 0.385 has the largest effect on performance of micro enterprise. This implied that an enterprise's financial base had a direct effect on its performance. The more amount of loan secured for micro enterprise investment, the better the performance of micro enterprise in terms of growth in income, savings and loan repayment. The study findings seem to concur with the studies carried out by Matovu (2006), K'Aol (2008) and Mushimiyimana (2008) on women entrepreneurs under micro finance program. In their study, it was noted that all the clients who received loans from micro finance institutions

registered improved micro enterprise performance. The performance was measured through improved income, savings and loan repayment. One of the major objectives of microfinance program is enabling the poor to generate enough income to exit them from poverty by investing in productive activities. Therefore, Youths participating in such a program expect to reduce poverty by increasing incomes from their micro enterprise activities. Savings are critical indicators of improvement in the lives of beneficiaries of microfinance program. Micro enterprises with increased savings have better economic and investment capacities in addition to increased ability to withstand risks.

On the contrary, studies by Mochona (2006) indicated that provision of loan had no significant effect on micro enterprise performance. This could be because the loans were given to groups as opposed to individuals and therefore divergent group opinion in terms of micro enterprise investment could equally affect performance.

The second important variable was training in micro enterprise investment with a Beta of 0.281 having the second largest effect on performance of micro enterprise. These findings concur with those of Bowen and Makarius (2009) that indicated that out of 51% of women entrepreneurs who received training in business skills, nearly all of them (49.5%) reported that their businesses were doing well. Therefore relevant training can produce positive results in the running of the business.

The savings mobilization had the least but significant effect on the performance of micro enterprise. These results contradict the findings by Aczel (2000) that shows that savings mobilization had insignificant effect on performance measured through growth in savings.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The study set out to evaluate the effect of provision of micro finance on the performance of micro enterprises, with specific reference to youth micro entrepreneurs under K-Rep Program in Kisii County, Kenya. To achieve this, three specific objectives were addressed. The first objective was to determine the provision level of micro finance to youth micro entrepreneurs. The findings indicated that the provision level of loans, savings mobilization and training in micro enterprise investment was on average satisfactory to the youth micro entrepreneurs. Nevertheless, characteristics such as loan repayment period, loan size, grace period, grant of loan applied for and business risk management skills with weighted mean provision levels of 2.24, 1.63, 1.65, 1.87 and 2.11 respectively were reported as being moderate to less satisfactory to the youth entrepreneurs.

Secondly, the study endeavored to determine the indicators of performance of youth micro enterprises. The findings showed that most respondents expressed satisfaction in micro enterprise performance measured by growth in income, growth in savings and loan repayment with weighted means of 3.29, 2.80, and 2.88 respectively.

The final objective was to establish the relationship between extent of provision of microfinance and performance of microenterprises. The study concluded that there existed a relationship between of provision of microfinance and performance of microenterprises and that micro finance significantly affected performance of micro enterprise. Loan had the largest effect on performance with a beta coefficient of 0.385, followed by training in micro enterprise investment with a beta coefficient of 0.281 and savings mobilization had the least effect with a beta coefficient of 0.272. It follows that participation in micro finance program by the youth contributed greatly to performance of their micro enterprises.

5.2 Conclusions

Based on the first objective, it was concluded that the level of provision of micro finance in terms of loan repayment period, loan size, grace period and business risk management; was moderate to less satisfactory to the youth micro entrepreneurs and could impede on performance of micro enterprises. The second objective was to determine the performance of micro enterprises. From the study findings, it was concluded that the youth micro enterprises performance was satisfactory. Finally, from the third objective of the study, it was concluded that provision of micro finance had significant effect on the performance of micro enterprises and therefore improvement in the provision levels of micro finance will result in increased effect on performance of micro enterprise.

5.3 Recommendations

The first objective was to determine provision level of micro finance to youth micro entrepreneurs. Training in micro enterprise investment help clients in business management and minimizing transaction related risks. However, many unfortunate events affecting micro enterprises negatively impacts on their performance. To withstand such unfortunate events where limited asset bases of clients shake when they face risks, the microfinance service providers and policy development partners could consider including a micro-insurance scheme in the micro finance package. Secondly, the extension of the current loan grace period of one month to three months would give the entrepreneurs adequate time to invest the loan and use the returns from the investment for loan repayment.

The effect observed on enterprise performance based on the second and third objectives of the study can be further enhanced, if various ways were arranged to extend loans to those clients who need bigger loans. Different microfinance products (loan sizes) matching varying borrowing powers of clients may meet credit and business needs of diversified clients. Additionally, raising the minimum loan size will enhance performance.

5.4 Suggestions for Further Research

The current study was a cross sectional survey based on a small sample size taken from only Kisii County with focus on K-Rep. Furthermore, the instrument of study used perceptual measures of performance of micro enterprises and so this may limit generalization of results especially in the analytical terms. This study therefore recommends a similar study but employing longitudinal survey on a large sample obtained through stratified sampling to cater for micro enterprises under different micro finance programs. Furthermore, future research could use interview and document analysis as data collection tools.

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APPENDICES

APPENDIX I

INTRODUCTORY LETTER TO THE RESPONDENT

Department of Business Management,
Kisii University College,
Egerton University,
KISII.

Dear Sir/Madam,

RE: Letter of Introduction

I am a postgraduate student at Kisii University College and I intend to carry out a research study on effect of provision of microfinance on the performance of Youth micro enterprises.

You have been selected to be a participant in the study and your co-operation will be highly appreciated, as the success of the study depends on it.

There is a questionnaire attached in which you are requested to give your honest opinion about how the provision of micro finance affects performance of your business. There is no correct or wrong answer, your response will be considered as it is. Be assured that any information given will be treated with strict confidence and is to be used for the purpose of this research only.

I look forward to your assistance.

Yours faithfully,

SIMEYO OTIENO.

APPENDIX II

QUESTIONNAIRE FOR YOUTH MICRO ENTREPRENEURS UNDER K-REP PROGRAM

This questionnaire seeks to obtain data on provision of micro finance and Youth micro Enterprise performance. Please be frank and honest in all your responses. All your responses will be treated with strict confidence.

SECTION A: DEMOGRAPHIC DATA

Please Indicate your response by ticking in the space provided

1. What is your gender?

Male ()

Female()

2. What is your age?

18-23 ()

24-29 ()

30-35 ()

3. What is your highest level of education?

Primary ()

Secondary ()

Diploma-College ()

University ()

6. What is the nature of business you are involved in?

Retail ()

Service ()

Transport ()

Others ()

7. How long have you been in operation?

1 year ()

2years ()

3years ()

4years ()

Over 5yers ()

SECTION B: PROVISION LEVEL OF MICRO FINANCE

1. Please rate the level of satisfaction with the following loan characteristics by ticking in the appropriate space.

Loan characteristics	Most Favourable 5	Very Favourable 4	Favourable 3	Moderately Favourable 2	Less Favourable 1
Timeliness in loan processing					
Interest Rate					
Grace Period					
Repayment Period					
Loan size					
Grant of amount applied for					

2. Please rate by ticking the level of satisfaction with the following attributes of savings mobilization provided by K-Rep.

Attributes of savings mobilization	Most Satisfactory 5	Very Satisfactory 4	Satisfactory 3	Moderately Satisfactory 2	Less Satisfactory 1
Savings services					
Frequency of savings deposits					
Use of savings pattern for credit worthiness assessment					

3. Rate by ticking the level of satisfaction in achievement of the following business skills after participating in Micro enterprise investment Training organized by K-Rep.

Business skills	Most Satisfactory 5	Very Satisfactory 4	Satisfactory 3	Moderately Satisfactory 2	Less Satisfactory 1
Capital investment decisions					
Basic business skills					
Business risk management					

SECTION C: MICRO ENTERPRISE PERFORMANCE

4. Rate the level of satisfaction with the indicators of performance of your micro enterprise by ticking in the spaces provided.

Performance Indicators	Most Satisfactory 5	Very Satisfactory 4	Satisfactory 3	Moderately Satisfactory 2	Less Satisfactory 1
Growth in Income					
Growth in savings					
Loan repayment					

Thank you very much for your cooperation.

APPENDIX III

DATA FOR MULTIPLE REGRESSION ANALYSIS

Provision level Index of Loan (L)	Provision level Index of Savings Mobilization (S)	Provision level Index of Training (T)	Performance index of Micro enterprise (Y)
6	4	4	3
7	5	4	5
10	7	9	7
10	8	10	7
6	4	4	3
8	6	6	5
8	7	6	5
17	12	12	11
18	12	12	11
15	10	10	9
14	10	10	9
17	11	12	10
17	11	12	10
26	15	15	14
28	15	15	15
20	14	12	11
9	9	6	7
7	5	4	4
8	6	5	5
7	6	7	5
21	14	13	11
15	11	10	10
15	11	10	10
15	11	10	10
17	11	12	10
17	12	12	11
8	8	6	7
12	9	10	8
12	9	10	7
14	9	10	9
14	9	10	9
14	10	10	9
13	9	10	9
8	7	6	5
24	14	14	11
29	15	15	15
15	11	10	10
15	11	10	10

(L)	(S)	(T)	(Y)
15	11	10	10
14	9	10	9
16	11	11	10
9	9	6	7
10	7	9	6
13	9	10	9
26	15	14	15
19	14	12	11
19	14	12	11
8	8	6	7
13	9	10	9
15	11	11	10
14	9	10	9
24	15	14	14
18	13	12	11
19	13	12	11
16	11	12	10
15	10	10	9
15	10	10	9
15	10	10	9
13	9	10	9
13	9	10	9
13	9	10	9
9	8	6	7
24	14	14	12
15	11	11	10
15	11	11	10
15	11	11	10
10	7	9	7
12	9	10	8
12	9	10	8
12	9	10	8
23	14	13	11
15	11	10	9
15	11	10	9
15	11	10	9
14	9	10	9
14	9	10	9
14	9	10	9
14	9	10	9
22	14	13	11
10	8	10	7
12	8	10	7
23	14	13	11

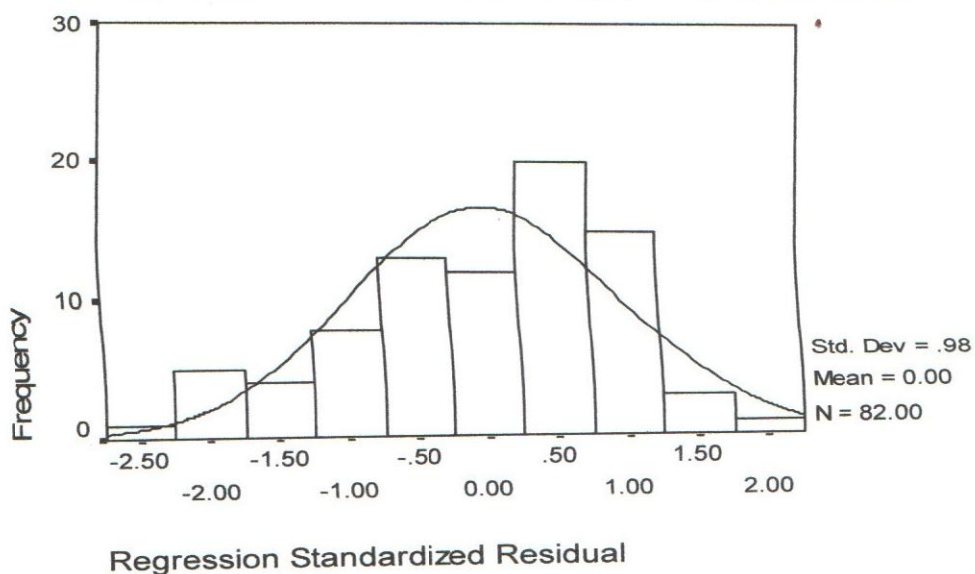
APPENDIX IV

TESTS FOR ASSUMPTIONS OF REGRESSION ANALYSIS

Normality Test

Histogram

Dependent Variable: Performance Index



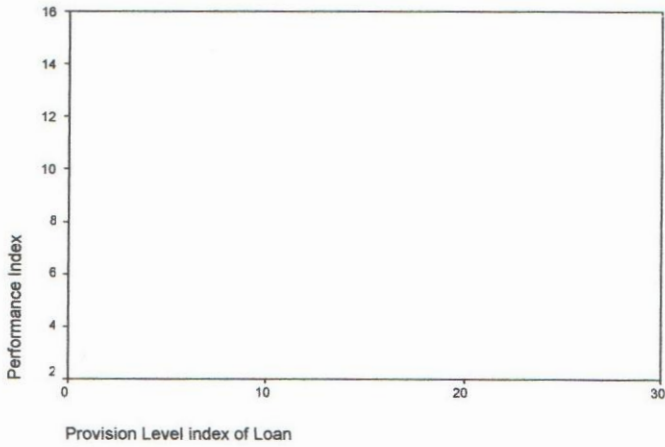
Descriptive Statistics

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Performance Index	82	.009	.266	.841	.526
Valid N (listwise)	82				

Source: Field survey (2010)

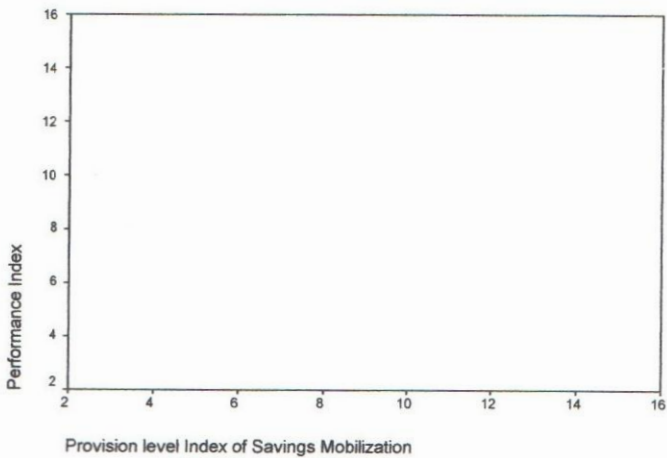
Linearity Test

Partial Scatter plot
Dependent Variable: performance Index



Source: Field survey (2010)

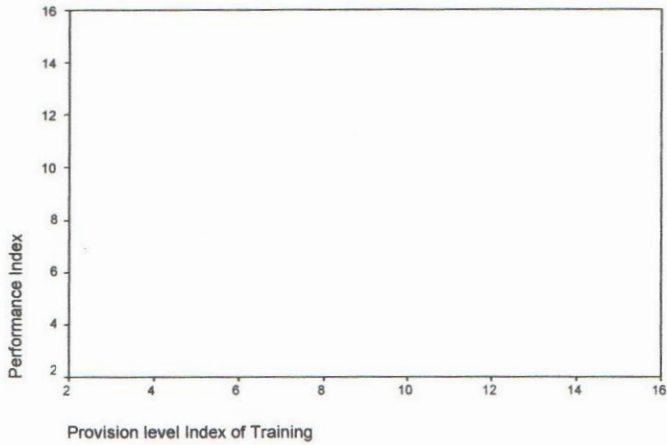
Partial Scatter plot
Dependent Variable: performance Index



Source: Field survey (2010)

Partial Scatter plot

Dependent Variable: performance Index



Source: Field survey (2010)

Homogeneity/ Constant of Variance Test

ANOVA

Performance Index

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	461.003	20	23.050	78.183	.000
Within Groups	17.984	61	.295		
Total	478.988	81			

Source: Field survey (2010)