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Full Length Research Paper

Effect of provision of micro finance on the performance of micro enterprises: A study of youth micro enterprises under Kenya Rural Enterprise Program (K-REP), Kisii County, Kenya

Otieno Simeyo[1], Lumumba Martin[1], Nyabwanga R. Nyamao[1], Ojera Patrick[2]* and Alphonce J. Odondo[2]

[1]Department of Business and Management, Faculty of Commerce, Kisii University College, P. O. Box 408 Kisii-Kenya.
[2]Department of Economics and Business Studies, Faculty of Arts and Social Sciences, Maseno University, P. O. Box 333 Maseno-Kenya.

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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 objective of this study was therefore to evaluate the effect of provision of micro finance on the performance of youth micro enterprises under K-REP program in Kisii County, Kenya. The study employed a cross sectional survey design. A sample of 86 youth micro enterprises was selected from a population of 110 youth micro enterprises using simple random sampling technique. Primary quantitative data were collected by use of structured questionnaires and analysed by use of descriptive statistics, multiple regression analysis and Pearson correlation coefficient. The empirical results revealed that loan had the largest significant effect on performance of micro enterprises 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 but significant effect with a beta coefficient of 0.272. Based on the research findings, the study concludes that provision of micro finance has a significant effect on the performance of youth micro enterprises in Kenya. Therefore provision of micro finance to the youth to engage in micro enterprise activities will help spur economic development and alleviate youth unemployment, in line with Kenya's vision 2030.

Key words: Micro finance, youth micro enterprises, performance.

INTRODUCTION

With the global youth populations reaching a historical height of 1.5 billion, economies world-wide are increasingly unable to provide young people with jobs, as youth employment grew by only 0.2% over the past decade against the global youth population growth rate of 10.5%. This prompted the first-ever Global Youth Micro enterprise Conference held in Washington, D.C. in September, 2007 to address the rising youth unemployment situation (Fiona, 2007).

World over, provision of micro finance to the vulnerable has been considered an innovative and sustainable approach where 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, savings mobilization and training in micro enterprise investment services extended to poor people to enable them 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

*Corresponding author. E-mail: pbojera@gmail.com.

which they may acquire employment as well as income. This is in view of the fact that the Micro and Small Enterprises (MSEs) sector has a potential to create wealth and employment as demonstrated in previous studies (Aryeetey, 1997).

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. This trend is worrying and calls for intervention measures. The 2003–2007 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).

However, Mushimiyimana, (2008) cited lack of collateral and high interest rates as an impediment to access to loans from Micro finance institutions (MFIs) by micro entrepreneurs. Micro entrepreneurs who secure funds from such institutions spend the bulk of their returns on investment in paying the cost of capital, thus leaving them with none or little savings for reinvestment. As a result, majority of micro enterprises fail to grow into Small and eventually Medium enterprises. Therefore, to bring the youth on board, the Kenyan government with the support of development partners in 2006 established a youth enterprise development fund that is channeled to Micro finance Institutions and other financial intermediaries for onward lending to the youth without collateral. Such a fund attracts a greatly reduced cost of capital which stands at 8% per annum as a strategy to make the fund affordable to the youth who in many cases do not have collateral and therefore ideal for start-ups.

Given that the vision of micro finance is to promote the growth of micro enterprises, MFIs and other financial intermediaries have experienced rapid growth to support the micro enterprises. 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 had micro financed 110 Youth micro enterprises to the tune of KSh 15 million. The loans with minimum amounts of Ksh.15000 are given to individuals with group members guaranteeing one another. To date, a number of MFIs and financial intermediaries including K-REP, Equity bank, Kenya women finance trust (KWFT), Faulu etc provide micro finance services to the low income groups for purposes of starting or developing income generating activities. Financial services deepening (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.

Therefore, the general objective of this research was to evaluate the effect of provision of micro finance on the performance of youth micro enterprises under K-REP program in Kisii County, Kenya. The specific objectives were to: (1) determine the provision level of micro finance to Youth micro entrepreneurs; (2) assess the performance of Youth micro enterprises and (3) establish the relationship between the extent of provision of micro finance and performance of the micro enterprises.

LITERATURE REVIEW

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. The aim was to provide collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers were organized into groups and peer pressure among them reduces the risk of default (Khan and Rahaman, 2007).

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.

Ledgerwood (1999), Christen and Rosenberg (2000) perceive the concept of micro finance as the provision of financial and non financial services by micro finance institutions (MFIs) 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.

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, general business management and risk management. Capital investment decisions include allocation of the micro

enterprise limited capital funds most effectively in order to ensure the best return possible. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise.

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. 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.

Literature on empirical studies on micro finance programs shade light on the performance of the micro and small enterprise sector. 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.

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.

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 on 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, 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. Recommendation was 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.

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. 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.

Bowen et al. (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% respondents saying their businesses were very successful. The results also showed that 49.5% 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.

K'Aol (2008) in his research paper on 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.

METHODOLOGY

This study employed a cross-sectional survey research design. Mugenda and 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. Saunders and Thornhil (2007) also explains that this research strategy allows collection of data through questionnaires administered to a sample and that the data collected by this design can be used to suggest possible reasons for particular relationships between variables and produce models for these relationships.

The target population of this study was youth micro enterprises operating within Kisii County and registered by the municipal council. The study population comprised 110 youth micro enterprises under K-REP program, out of which 86 (78.2%) micro enterprises were selected using simple random sampling technique. The sample size was computed as shown by the formula:

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

Where n is the sample size, N is the population, e is the level of precision (Yamane 1967).

Questionnaire was used as the method of data collection. Structured questionnaires were self-administered to youth micro entrepreneurs to gather primary quantitative data. The questionnaire was divided into three sections: demographic information, provision levels of micro finance and effect on micro enterprise performance. 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 was also aimed at gathering data concerning the performance in terms of growth in income, loan repayment and growth in savings from micro enterprise activities. Perceptual responses were captured in a five-point-Likert scale. Perceptual performance measures were preferred since actual 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. The Likert scale was also preferred as it is able to deal with large number of items and difficulties in eliciting specific information from the respondents (Singh and Smith, 2006). Multiple linear regression analysis was used to establish the relationship and magnitude between micro finance services (independent variables) and performance of micro enterprise (dependent variable). This analysis was based on the model specified as follows:

Micro enterprise performance = f (Loan, Savings mobilisation and Training)

Thus, the model $M_p = \alpha + \beta_1 L + \beta_2 S + \beta_3 T + \varepsilon$ ..... {Equation 1}

Where, M_p – Micro enterprise performance, α – Constant (autonomous performance), L – Loan, S – Savings mobilization, T – Training in Micro enterprise investment, $\beta_{1..}$ β_3 – Coefficients of independent variables and ε – Error term

RESULTS AND DISCUSSION

Provision level of micro finance

The first research objective 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.

Provision level of loan

Table 1 indicates provision level of loan in terms of how favourable the loan characteristics are to the youth entrepreneurs. The finding 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 score of 3.04 implying that most youth entrepreneurs considered time taken for loan processing as being favourable (a score of 3 on the scale). This suggests 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.

In terms of interest rate, 16 of respondents indicated most favourable, a majority 46 recorded very favourable,

Table 1. Distribution of level of satisfaction with loan characteristics.

Loan characteristic	Frequency							
	Most favourable	Very favourable	Favourable	Moderately favourable	Less favourable	∑fi	∑fiwi	∑fiwi/∑fi
	5	4	3	2	1			
Timeliness in loan processing 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).

14 indicated favourable, 4 indicated moderately favourable and only 2 indicated less favourable. This gave a weighted mean score of 3.85 on the scale. 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.

A weighted mean score of 1.65 on the scale was posted for grace period. 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.

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 score of 2.24 on the scale. 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 of the micro finance program.

In terms of the size of the loan, a weighted mean score of 1.63 on the scale 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.

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 score of 1.87on the scale. 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.

Savings mobilization

Table 2 shows the distribution of level of satisfaction with attributes of savings mobilization. The table indicates that19 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 score of 3.91 on the scale. Therefore, the general view is that majority of the respondents were very

Table 2. Distribution of level of satisfaction with attributes of Savings mobilization.

Attribute of savings mobilization	Frequency							
	Most satisfactory	Very satisfactory	Satisfactory	Moderately satisfactory	Less satisfactory	∑fi	∑fiwi	∑fiwi /∑fi
	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).

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 mobilizetion for the micro entrepreneurs.

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 score of 3.44 on the scale. 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 score of 3.12 on the scale. 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.

Training in micro enterprise investment

Table 3 shows distribution of level of satisfaction in achievement of business skills after participating in micro enterprise investment training. 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 score of 3.57 on the scale. 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 score of 3.83 on the scale. These

Table 3. Distribution of level of satisfaction in achievement of business skills after participating in micro enterprise investment training.

Skill	Frequency							
	Most satisfactory	Very satisfactory	Satisfactory	Moderately satisfactory	Less satisfactory	∑fi	∑fiwi	∑fiwi /∑fi
	5	4	3	2	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).

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 et al. (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).

Performance of micro enterprises

The second objective 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. From the table, 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 score of 3.29 on the scale, 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 also shows that only 2 of the

Table 4. Distribution of indicators of performance of micro enterprise

Indicator of performance	Frequency							
	Most satisfactory	Very satisfactory	Satisfactory	Moderately satisfactory	Less satisfactory	∑fi	∑fiwi	∑fiwi /∑fi
	5	4	3	2	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).

respondents were most satisfied with growth in savings. 4 were very satisfied, 54 were satisfied, 20 were moderately satisfied while only 2 recoded less satisfaction with growth in savings, translating to a weighted mean score of 2.80 on the scale. This implies that in terms of growth in savings, majority of the respondents reported satisfactory performance.

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 score of 2.88 on the scale, 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.

Provision of micro finance and performance of micro enterprise

The third research objective 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.

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 coefficients of regression results are presented in Tables 5, the regression model summary result in Table 6 and the ANNOVA results in Table 7.

The unstandardized beta coefficients column in Table 5 were used to obtain the overall equation as suggested in the theoretical framework (Equation 1). When these beta coefficients are substituted in the equation, the model becomes:

$$\mathbf{M_p} = 0.507 + 0.169\ \mathbf{L} + 0.363\ \mathbf{S} + 0.227\ \mathbf{T} + \varepsilon \ldots\ldots \text{\{Equation 2\}}$$

This means that even without the three independent variables (loan, savings mobilization and training), the performance of micro enterprise is expected to stand at 0.507 (Y-intercept). 0.169, 0.363 and 0.227 are the coefficients of Loan, savings mobilization and training respectively. They are all 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.

Table 5 also shows the unique contribution (effect) to the explaining of the independent variable. This is shown by the beta values under the standardized coefficients column. The standardized coefficients assess the contribution of each independent variable towards the prediction of dependent variable, since these values have been converted in the same scale to enable comparison. 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 mobilization and training are significant (since $p<0.05$). From the model summary as shown in Table 6, R is the correlation coefficient mea-suring the strength and direction of the linear relationship. The R value is 0.963 and implies a strong positive linear

Table 5. Estimated coefficients of explanatory variables

Model	Un standardized coefficients		Standardized coefficients	t-Statistic	Significance
	B	Std. Error	Beta		
1 (Constant)	0.507	0.402		1.262	0.211
Provision Level index of loan	0.169	0.053	0.358	3.181	0.002
Provision level index of savings mobilization	0.263	0.098	0.272	3.715	0.000
Provision level index of training	0.227	0.109	0.281	2.081	0.041

Dependent variable: Performance index
Source: Field survey (2010)

Table 6. Model summary.

Model	R	R^2	Adjusted R^2	Std. error of the estimate
1	0.963	0.927	0.925	0.6676

Source: Field survey (2010).

Table 7. Analysis of variance (NOVA) results.

Model	Sum of squares	df	Mean square	F-Statistic	Significance
Regression	444.221	3	148.074	332.206	0.000
Residual	34.767	78	.446		
Total	478.988	81			

Source: Field survey (2010).

relationship. The R^2 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^2 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^2 is a standard, arbitrary down-ward adjustment to penalize for the possibility that, with many independents, some of the variance may be due to chance. The adjusted R^2 is therefore an indicator of generalizability as it is used to estimate the expected shrinkage in R^2 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^2 = 0.927 and Adjusted R^2 = 0.925. These values are very close, anticipating minimal shrinkage based on this indicator.

The result in the ANOVA in Table 7 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.

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. From the correlations in Table 8, 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). It was also necessary to check the possibility of multicol-linearity between predictors. The correlations among the independent variables (predictors) are less than 0.900, indicating absence of collinearity (Field, 2005).

CONCLUSION AND RECOMMENDATION

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

Table 8. Pearson's product moment correlation coefficient.

Variable		Performance index	Provision level index of training	Provision level index of savings mobilization	Provision level index of loan
Performance index					
Provision Level index of training	Pearson correlation	0.945**			
	Sig. (2-tailed)	0.000			
	N	82			
Provision Level index of savings mobilization	Pearson correlation	0.945**	0.746**		
	Sig. (2-tailed)	0.000	0.000		
	N	82	82		
Provision level index of loan	Pearson correlation	0.947**	0.758**	0.637**	
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	82	82	82	

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

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 extent 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 therefore implies that improvement in the provision levels of micro finance will result in increased effect on performance of micro enterprise.

Training in micro enterprise investment as a component of micro finance 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 study recommends that 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. The government and development partners could consider channeling more funds for micro financing programs to bring on board many unemployed youth that are currently out of reach of the programs as this will help spur economic development and alleviate youth unemployment, in line with vision 2030.

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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