

Microfinance Lending Services as a Tool for Sustainable Entrepreneurship Development in Uasin Gishu County

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Abstract

Sustainable development is gathering momentum in public discourse, and greater attention and reverence in academic research. This study sought to assess Microfinance lending services as a tool for sustainable entrepreneurship development in Uasin Gishu County. The study adopted descriptive survey design. The target population was employees in Microfinance institutions. The study employed cross-sectional survey design. Questionnaires were used to collect data from 114 employees. The data was analyzed using both descriptive and inferential statistics. Finding suggests MFIs lending services influenced entrepreneurship development and it further influence Microenterprises growth and innovation. This study recommends that microfinance institutions should consider engaging strategic leading programmers to gain competitive advantage and provide innovative dynamic business growth.

Keywords: Micro-finance, Lending, Sustainable, Entrepreneurship

Introduction

The key element of the microfinance institutions' approach to alleviation of poverty and improving the living in many developing countries is to provide credit and organizational support to their clients, who do not have assets to use as collateral in obtaining loans from formal financial institutions. Although governments realize that resource-poor rural households need affordable credit to enhance household incomes, the formal financial institutions has failed to reach the poor because they adhere to stringent collateral requirements, and the credit disbursement and recovery procedures are not suitable for their economic environment (Adams & Vogel, 2006). Providing Small and Medium Enterprises (SMEs) access to lending services provide the conditions to develop entrepreneurship. The countries in this regard, provide major policies to create entrepreneurship infrastructures; few basic policies are: granting tax relief; supporting small and medium industries for modernization; encouraging small and medium industries to develop cooperation and network formation (Shafeghat *et al.*, 2008).

Microfinance is an effective and powerful tool for poverty reduction. To affirm the above statement, Amin, Rai & Topai (2003) focus on the ability of micro finance to reach the poor and conclude that microfinance has served people below and above the poverty line. The result of empirical evidence indicates that the poorest can benefit from microfinance from both on economic and social well-being point of views, and that this can be done without jeopardizing the financial sustainability of the micro financial institutions (Zainan, 2000; Robin, 2001; Dahiru, 2008; Nwankwo 2007).

Many micro and small enterprises (MSEs) fail to expand due to limited financial resources, poor managements, use of outdated technologies, stiff competitions from bigger firms, poor management of account receivables, unfavorable government policies among .According to Yaron (1997) the study found that poor access to loans and limited finance as the main causes limiting the growth of micro and small enterprises. A study by Yunus, (2004) found that many MSEs had limited capital, lacked relevant skills and used outdated technologies that constrained their growth. However, there are a number of factors that influence the decisions of MSEs' operators and managers before deciding the source and amount of finance to finance business investments to invest in business activities. Prasad, Green and Murinde (2005) found that financing policy, capital structure and firm ownership are all strongly linked. Their argument was that financing policy by firms requires managers to identify ways of funding new investment. The managers may exercise many choices: use retained earnings, borrow or issue new shares.

Carpenter and Petersen (2002) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. The insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of micro and small business failure in developing economies. It is from this perspective, the micro credits are considered to be an appropriate solution because the amount of money needed to start a micro or small business is generally quite minimal (Sonfield & Barbato, 1999). Access to credit enables the MSEs owner to cover some or all of the cost of capital equipment, expansion, or renovation of buildings. Similarly, UWFT (2005) found that majority of MSEs that accessed adequate funds from microfinance institutions increased their volume of sales and the profit. The study also found MSEs acquired assets using MFIs loans.

The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there

are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from the MSEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term (Omino, 2005)

The increase in number of microfinance institutions in Kenya has led to better services hence entrepreneur development (Microfinance Information Exchange Report, 2006). MFIs have improved their product lines to meet clients' demands; prices become lower, the quality of services provided improves; and overall, MFIs become more client-driven. In terms of governance, MFIs become more efficient and conscious of risk management. Interest rates are often made more transparent. Better governance complements commercialization of the MFIs.

Microfinance is close to the rural dwellers, commercial banks find it difficult to establish contact in the rural areas due to insecurity and high overhead cost. Because of these there are many un-bankable populations in the rural area where there is no financial institution around their marginal propensity to consume is very high given a percentage of 5% as the marginal propensity to save (Nwankwo, 2007). But with the advent of modern microfinance in these communities, most rural dwellers have developed the habit of savings; hence microfinance banks now tie any credit advance to compulsory saving. With advent of microfinance bank, such savings now earn interest for the people and encourage savings by the rural population. Few studies have been conducted in Uasin Gishu on Micro Finance institutions lending services and entrepreneurial development.

Methodology

Study Design

This study employed explanatory and descriptive study design that seeks to gain an in-depth understanding of the effect of microfinance institutions services on entrepreneurship development in Uasin-Gishu County. Explanatory research avoids invalid inferences as it focuses on answering the "why" question. Descriptive studies try to answer the questions like who? What? Where? And how? The researcher attempted to describe such things as possible behavior attitude, values and characteristics. According to Mugenda and Mugenda (2003), a case study is an in-depth investigation of an individual, group, institution or phenomenon. Kombo and Tromp (2006), contend that a case study seeks to describe a unit in detail, in context and holistically.

Target Population

Mugenda and Mugenda (2003) define a population as an entire group of individuals, events or objects having a common observable characteristic. Target population in statistics is the specific population about which information is desired. The target population of this study was all the employees of MFIs in Kenya. There are 1,780 such employees (CBK, 2014). However, the proportion of the population that has the characteristics to be measured constitutes 114 employees of the six registered MFIs managing credit provision in the period between 2009 and 2014.

Sample size and sampling procedure

Given the small number of the population, the researcher employed census method; therefore the sample size for the study was 114 respondents from the six Micro-Finance Institutions in Uasin- Gishu County.

Table 1: Sample size

Branch	Population frequency
Faulu Kenya DTM Limited	54
Kenya Women Finance Trust DTM Limited	32
Rafiki Deposit Taking Microfinance	6
Remu DTM Limited	6
SMEP Deposit Taking Microfinance Limited	12
UWEZO Deposit Taking Microfinance Limited	4
Total	114

Source: <http://www.amfikenya.com/>

Data collection instruments

Data was collected by use of questionnaire. The questionnaire consisted of open and closed ended questions. It comprised of two sections. The first part sought to obtain general information on respondents' profile. The second part was devoted to analyzing the effect of microfinance institutions lending services on entrepreneurship development in Uasin-Gishu County.

Data Reliability and Validity

According to Mugenda and Mugenda (2003), reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials and validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. The researcher carried out a pilot study to pretest and validates the questionnaire. The pilot study was to enable the researcher to identify items that require modification. The results were to help the researcher to correct inconsistencies arising from the instruments, which ensured that they measure what was intended. Cronbach alpha test was used to test for the reliability or internal consistency of the study variables.

Data analysis

The researcher mainly used descriptive statistics to analyze data. This included frequency distribution tables, mean and standard deviation. In addition to the above, inferential statistics especially multiple regression analysis was done. Correlation was carried out to establish the effect of microfinance services affect entrepreneurship development to a greater extent. Data presentation was done by use of pie charts and graphs percentages and frequency tables.

Results

Lending Services

Respondents were required to indicate their level of agreement with various MFIs lending services on entrepreneurship development in Uasin Gishu County. Items that were measured on a five point Likert-Type scale ranging from 1 being “Strongly Disagree” to 5 being “Strongly Agree”. Means of between 2.4559 - 3.8529 and standard deviations of between 0.54374- 0. 78100 were registered. The study findings therefore revealed that majority of the respondents agreed that MFIs lending services had helped microenterprises venturing into business (3.8676) to a great extent. The findings further revealed that MFIs lending services had helped microenterprises improve their business through innovation. However majority of the respondents disagreed that MFIs lending services had helped microenterprises avoid business failure (2.4559). The findings are as presented in Table 4.3.

Table 2 MFIs Lending Services

Lending Services	Mean	Std Deviation
MFIs lending services have helped in growth and expansion of microenterprises.	3.7647	.54374
MFIs lending services have helped cushion microenterprises from stiff competition from established firms.	3.7794	.65254
MFIs lending services have helped microenterprises avoid business failure.	2.4559	.76968
MFIs lending services have helped microenterprises increase their profitability.	3.7353	.76968
MFIs lending services have helped microenterprises improve their businesses through innovation.	3.7794	.64917
MFIs lending services have helped increase in household venturing into business.	3.8676	.76525

Entrepreneurship Development

Respondents were required to indicate their level of agreement with various MFIs services on entrepreneurship development in Uasin Gishu County. Items that were measured on a five point Likert-Type scale ranging from 1 being “Strongly Disagree” to 5 being “Strongly Agree”. Means of between 3.5294 - 3.8971 and standard deviations of between 0.57149- 0.79230 were registered. The study findings therefore revealed that majority of the respondents agreed that MFIs services had helped in creation of employment opportunities (3.8971) to a great extent. Further MFIs services had helped improve on low incomes (3.8382) to a great extent. However majority of the respondents maintained that MFIs services had helped low level of social welfare (3.5294) as presented in Table 3.

Table 3: Entrepreneurship Development

Description	Mean	Std Deviation
MFIs services have helped in creation of employment opportunities.	3.8971	.78437
MFIs services have helped improve on low incomes.	3.8382	.72504
MFIs services have helped in creating economic diversity	3.8235	.57149
MFIs services have helped reducing poverty.	3.7794	.75004
MFIs services have helped address inequalities within rural population.	3.7647	.67177
MFIs services have helped low level of social welfare.	3.5294	.79230

Regression Analysis

The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between entrepreneurship development and MFIs services. The research findings indicated that there was a very strong

positive relationship ($R = 0.852$) between the variables. The study also revealed that 52.7% of entrepreneurship development in Uasin Gishu County could be explained by MFIs lending services under study.

Table 4: Model Summary

R	R Square
.852	.527

Table 5 shows the results of ANOVA test which revealed that MFIs lending services have significant effect on entrepreneurship development. This can be explained by high F values (8.746) and low p values (0.003) which are less than 5% level of significance.

Table 5: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.518	376	.138	8.746	.003
Residual	.185	1	.185		
Total	1.702	377			

Table 6 shows the results of regression coefficients which reveal that a positive effect was reported for MFIs lending service.

Table 6: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.441	1.820		2.440	.059
Lending services	.266	.254	.310	.048	.034

Discussions

The finding of the study revealed that MFIs lending services influenced entrepreneurship development in Uasin Gishu County. Majority of the respondents agreed that MFIs lending services had helped microenterprises venturing into business. The findings further revealed that MFIs lending services had helped microenterprises improve their business through innovation. Results of the inferential statistics showed a positive effect of lending services on entrepreneurship development.

Conclusions

The finding of the study revealed that MFIs lending services influenced entrepreneurship development in Uasin Gishu County. MFIs lending services had helped microenterprises venturing into business and improve their business through innovation.

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