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Determinants of Microfinance Services on Performance of Micro Enterprises in Kenya: A Case of Faulu Kenya In Trans Nzoia County

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Abstract

The purpose of the study Was to analyse the determinants of microfinance services on the performance of micro enterprises in Trans Nzoia County. The study was guided by the following objectives: to determine the effect of savings facilities on micro enterprises performance in Trans Nzoia County. The study employed the following theories: Wealth multiplier theory, uniting theory of microfinance, Poverty alleviation theory and Human capital theory. The study adopted the survey research design with focus on the various groups registered by or annexed to Faulu Kenya Deposit Taking Microfinance for purposes of accessing financial services. The target area of the study was Trans-Nzoia County.. A Census survey was employed on the entire 45 groups in Transnzoia County to select 45 respondents, one leader for each group. The questionnaire was the instrument which was used to collect data. The results were presented in form of frequency tables, bar graphs and pie charts. The analytical model used was in the form of a multiple regression model. The findings of the study revealed that microfinance services had great impact on the performance of micro enterprises. The study recommended that microfinance institutions and Banks should either restructure or reinforce their operations for efficient and effective service to micro entrepreneurs. The government should come up with the best legislative measures to undertake to create an enabling environment for effective economic empowerment of her citizenry.

Keyword: Saving Credit, Microenterprise Performance

1.0. Introduction

The word microfinance is being used very often in development vocabulary today. Although the word literally comprises of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Microfinance is defined as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches'(Christen (2003)). This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others.

However many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes. Microfinance is referred to as micro credit for small informal business of micro entrepreneurs(Christen et al.2003) Microfinance refers to small scale financial services primarily credit and savings provided to people who engage in farming, fishing and operate micro enterprises to gain subsistence income from this activities and subsequently support the rural economy (Khanker, 1998). Through microfinance, micro entrepreneurs have been able to run small businesses which constitute a significant share of economic activity in developed and transitioning economies (Kagwe, 2008).

Microfinance offers poor people access to basic financial services such as loans, training, savings, money transfer services and micro insurance services. People living in poverty need a diverse range of financial services to run their businesses, build assets gradually, smooth consumption, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life. Thus going by this formal definition, it is clear that the industry is not limited to the NGO MFIs but also include other informal relationships like financial co-operatives, (ROSCAs) Rotating Savings and Credit Associations, Saving Associations/clubs and some welfare associations although they tend to be erratic and insecure.

Majority of microfinance institutions offer and provide credit on a solidarity group lending basis without collateral. Conning, J(1997) defines Joint liability lending (JLL) as the sort of microfinance model that is targeted to the very poor in rural society who cannot even borrow individually but must borrow within a group of other borrowers. Participants of joint liability lending must organize themselves in groups, and act as security for each other's loans. In reality, the group not the individual is responsible for loan repayment to the microfinance institution. The groups use peer pressure and peer monitoring to ensure that loans acquired by members are repaid. The members are able to participate and access credit facilities through the organized groups. Besides their potential for job creation, microfinance activities also serve to elevate other important needs: they elevate the income level of the population, function as a mechanism for income distribution, and have helped develop an entrepreneurial class in Kenya. Gomez and Santor's (2003) empirical study on peer group lending suggests that borrower default is significantly reduced with group lending. Microcredit provides opportunity for the poor to help lift themselves from poverty. It allows them to increase their income and build viable businesses. Furthermore its impact is not only limited to the improvement of economic conditions but it also affects the well-being of their families' health and education. (Murray, 2002).

Literature supports the fact that majority of microfinance institutions clients do not have specialized skills and cannot make good use of microfinance factors (Karnani, 2007), hence they need training. It is important to focus on training of micro entrepreneurs .Carter (2000) agrees and suggests that the only way to encourage larger numbers of women into self-employment is to recognize that there's is a clear need to widen the access to business startup and growth training and advice. Arguably, as many micro entrepreneurs lack management experience and access to networks, they have a greater need for ongoing support to enhance successful business performances.

In Kenya, at the present time, microfinance institutions services represent perhaps the best alternative for both poverty alleviation and women empowerment among various rural communities. Given the difficult economic and social situation existent in the country, more attention needs to be given to how micro finance institutions provide services and sustain micro entrepreneurs. The contribution by the microfinance institutions providing services to both new and existing small and medium business firms towards economic recovery is universally accepted as significant (Birley, 1986). Economic benefits attributed to these institutions are many.

Traditionally, commercial banks have not considered the rural poor to be viable market (UN, 1997).It is worth noting that the main stream banking sector over the years has always focused on the urban population with rigid conditions of accessing the bank services especially credit. Therefore different Community based welfare institutions like self-help groups and Microfinance Institutions which are financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services have emerged to be financial service providers for the poor people.

Kenya Vision 2030 is the new long-term development blueprint for the country motivated by collective aspiration for a much better society than the one we have today. The aim of Kenya Vision 2030 is to make Kenya a globally competitive and prosperous country with a high quality of life. Vision 2030 is anchored on three key pillars: Economic, Social and Political Governance. The economic pillar aims to achieve an economic growth rate of 10 per cent per annum and sustain such performance over the period to 2030 with the primary aim being to address the problems of poverty, unemployment and equity. With reference to the objective of Kenya Vision 2030 calls for the enhancement and support of microfinance so that they can in turn empower their clients in achieving their development goals (*www.nesc.go.ke)*. Poverty reduction is a key focus of the Millennium Development Goals and is at the heart of international, national and NGO development objectives and activities. Recent achievements in poverty reduction have varied widely across and within countries, regions and social groups. However as reported by world bank (2015),there are still a lot of work that needs to be done as 1 billion people(14.5% of the world's population could be classified as extremely poor.)This study focuses on rural areas which, despite growing urbanization, continue to be home to the majority of the world's poorest people. Therefore practical economic empowerment at an individual level is pertinent in attainment of Kenya's vision 2030. The attainment of this vision lays squarely on economic growth with an enabling environment for the same being crucial. Therefore, it is against this background that this study was founded. This study therefore seeks to fill this gap by studying the determinants of microfinance services on the performance of micro enterprises in Kenya.

1.1.1 Kenya Microfinance Sector

The Microfinance industry in Kenya continues to meet the needs of an increasing number of un-banked and underserved segments of the Kenyan population including the poor and low income households, farmers, traders and micro-entrepreneurs. Microfinance business in Kenya is carried out under several institutional forms ranging from formal, semi-formal and informal financial service providers such as commercial banks, the Kenya Post Office Savings Bank (Post bank), microfinance institutions (MFIs), savings and credit co-operative societies (SACCOs), rotating and savings and credit associations and accumulating and savings and credit associations (ROSCAs and ASCAs), money lenders and shopkeepers, among many others. The Association of Microfinance Institutions (AMFI) has 36 members. Twenty seven of these institutions are retail lending microfinance institutions with about 800 outlets and outstanding loan portfolio amounting to Ksh.4.6 billion with an estimated 1.2 million and 300,000 savers and borrowers, respectively. As at 31st December, 2007, there were 5,122 registered SACCOs serving an estimated membership of 3.3 million with an outstanding loan portfolio and shares and deposit base amounting to about Ksh.110 billion and Ksh.165 billion, respectively.

According to Fin access survey study of 2006, only 19 percent of Kenyans have access to financial services and products through commercial banks and the Kenya Post Office Savings Bank (Post bank). An additional 8 percent are served by SACCOs and microfinance institutions, while a majority of people, 35 percent depend primarily on informal financial services such as ASCAs,

ROSCAs, shopkeepers and money lenders, among many others. These survey results indicated that 38 percent of Kenyans have no access to financial services and products, hence classified as 'unbanked' or financially excluded. This indicates a big gap in access to financial services and products by Kenyans. The Government expects the deposit-taking microfinance institutions (MFIs) to boost access to financial services through innovative and client driven products and delivery channels.

1.1.2 Faulu Kenya Deposit Taking Microfinance

According to the wwwFaulukenya.com, Faulu Kenya Deposit Taking Microfinance is a limited liability Company duly incorporated in Kenya under the company's act. The company changed its name to Faulu Kenya Deposit Taking Microfinance Ltd in 2008 as part of requirements to obtain deposit taking license from the CBK. In May 2009, Faulu became the first registered DTM in Kenya under the microfinance act and is regulated by the CBK. Faulu was founded by Food for the Hungry International (FHI), a Christian Relief organization, loan scheme program that targeted the economically active poor in Mathare slums of Nairobi-Kenya. Food for the Hungry International recognizes that there are unique needs of low-income people in urban and rural areas, and that sustainable economic development for the marginalized poor is a top priority issue in the developing world. The transition from basic need level for such people will only occur when they reach a level of income that allows them to be responsible for determining and meeting their other development needs. To address these issues, FHI established the Faulu Africa Network, a regional micro finance network operating in Kenya and Uganda, and most recently in Tanzania

From its humble roots from a loans scheme in 1991, Faulu is currently one of the top DTM's in Kenya to have successfully developed a platform aimed at banking the previously unbanked through a variety of services like savings, credit, micro insurance and mobile banking solutions. Faulu has demonstrated a track record of enviable growth in its assets and loan book. Faulu Kenya has grown tremendously over the last 20 years from a single MFI office in 1991 to over 90 service outlets which include; 27 banking branches in 7 of the 8 regions(formally provinces) in Kenya by end of 2011 with various strategic partnerships that make its financial services available countrywide.

The bulk of Faulu Kenya clients are engaged in commercial activity of a retail nature, with a reasonable number engaged in service businesses, agriculture and manufacturing. The growth of Faulu Kenya DTM increasingly comes from the rural clients. Urban-based clients have made a rapid transition from business loans to consumer loans, much more than the rural based ones. In recent days, there has risen an increased demand for training and business development services among these clients, a factor that Faulu Kenya is seriously addressing.

In Kenya, as in many African countries, providing financial services to poorer populations remains a challenging goal. Poverty is usually the major cause of underdevelopment. The role played by micro enterprises in driving the global economy has been recognized and documented in a number of studies and government policy and documents .According to the 1999 baseline survey (CBS, ACEG and K-REP), there are 1.9 million MSEs which contribute to 18% of Kenya's GDP. Small scale individual enterprises are seen as potential solutions to eradicating poverty as they contribute to employment, general development and offer quality services. Yunus (2003, 2008 and 2010) published his experience with micro financing and sees this as a tool of poverty alleviation. It is important to note that micro enterprise owners play a critical role in economic development because most of them undertake enterprising activities to support their families and the communities (Jiggins, 1989). Although governments realize that resource-poor rural households need affordable credit to enhance household incomes, the formal financial institutions 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, 1986).Microfinance by providing capital for starting or expanding income-generating activities represents a powerful instrument to lift the poor from dependency to self-sufficiency. Conversely, the increasing commercialization of microfinance (Drake and Rhyne, 2002; Woller, 2002) has also shed light on the limitations of MFIs. Where they have attached the private properties of defaulters in order to recover money advanced as loans and this has left many entrepreneurs poorer and at the same time discouraging the potential borrowers. A study by Bowen et al (2009) shows that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 micro enterprises failing within months of establishment. It is not known whether the problem is accessibility of microfinance services for their entrepreneurial activities or due to other factors such as relating to micro entrepreneurs themselves. Therefore, it is against this background that this study sought to investigate the performance of selected micro enterprises in Trans Nzoia County and to what extent this performance has been influenced by microfinance services.

2.0 Effect of Micro savings facilities on performance of enterprises

The importance of savings mobilization as micro finance institution service has been highlighted in several studies in the context of microfinance. This is a branch of microfinance consisting of a small deposit account offered to micro entrepreneurs as an incentive to store funds for future use. There are a number of reasons why micro entrepreneurs find it difficult to save. Some of them may lack a structured disciplined method of saving. Others may have difficulty controlling the consumption habits of other members of their household. This problem is particularly acute for women who often have no control over household spending. Moreover, for those who are interested in saving, the only mechanisms available may be investments in illiquid assets that deprive them the ability to take advantage of new investment opportunities or respond to sudden setbacks. For example investments in livestock are susceptible to the risks of diseases and drought. Meanwhile, more liquid assets such as cash and jewelry are susceptible to the risk of theft (Emily as cited in Mutalima, 2006) Lack of savings and capital make it difficult for many poor people to undertake productive employment generating activities. According to Hulme and Mosley(1996),most financial institutions regard low income household as too poor to save in order to generate higher incomes, savings and more investment and thus there is need to inject capital in form of microfinance.

Today, microfinance activities cover micro savings products and, more recently, insurance products for small entrepreneurs (Zeller et al., 2000). Microenterprise programs can play a significant role to foster savings among the poor populations with considerable benefits both for the savings and the programs. Tecla (2012) cites Harper (2003) 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 income. Experiences from the empirical findings have shown that many low income people have the capacity to save and they usually do it through informal channels like groups or associations through which people undertake financial activities such as lending and savings (Harper, 2003).

There is enormous literature available based on surveys, case studies, regional and cross country analysis focusing on the nature of saving capacity and ways of savings of poor. Many affirm that not only do the poor save but their savings have substantial implications for policy and resource mobilization for financial markets and national economies. Informal saving schemes exist throughout the developing countries (Harper, 2003 as cited in Tecla, 2012). Most of the crucial in this perspective are rotating savings and credit associations and accumulating and savings and credit associations (ROSCAs and ASCAs). These are informal institutions in which group members come together to save, share risks and borrow. They are organized spontaneously among socially homogenous groups with the strength of each group varying from six to fifty people. A leader who is usually a founder is responsible for the collection and distribution of resources. All informal credit and saving activities work on the principal of rotating access to a capital fund which is continuously fed by members' contributions. The interest rate charged from borrowers depends on the length of the term for which the loan is taken. The ROSCAs provide the idea of what motivates poor people to save. The main character is being simple grounded in the local culture which is flexible with structured set of rules agreed upon by all. Lakew (1998) Carried out a survey and noted that the program had a positive effect on income savings of the clients. According to Navajas and Meza (2000), the real idea of microfinance is to help the weakest women of the society who in this case are the poor.

Ferrand et al (2004) argues that countries that have succeeded in reducing poverty have used and shaped markets to provide for the right conditions; jobs, opportunities, services, information to allow people to raise their incomes. Furthermore, markets are the heart of a successful economic growth because markets offer the means through which the poor people can participate in economic activity. A number of MFIs require that borrowers contribute a small portion of their earnings to a savings vehicle often in small amounts on a frequent basis. This savings will often be unavailable to the borrower for a predetermined period and are designed to help MSEs develop effective savings habits. (Morduch, 1999). They show that microfinance services are improving poor individuals' participation in economic activities and offer them the opportunity to become self-sufficient.

Alternatively MFIs may allow micro entrepreneurs to make voluntary deposits. These deposits are intended to be safer and more liquid than alternative saving instruments. It is important to recognize that these kinds of savings plans also serve the interests of MFIs by allowing them to accumulate capital and because of deposits can be seized in the event of default, collateralize the debt obligations of their borrowers (Germidis D. et al 1991)

Mobilizing savings leads to the development of programs that work to boost productive income and employment among low income groups. Also the process of saving on a regular basis can be an empowering experience for people used to living at the margin and can contribute to an improvement in the quality of their lives. It serves to capitalize on the productive activities which sustain the family and thereby enhancing the income of the family.

A lot of studies have endeavored to explore the relationship between microfinance services and microenterprises. For instance, in their study Indonesia and Agel (1990) found out that loans borrowed by enterprises were spent for working capital requirements. Profits earned were reported to be 24.7% and total employment increased at the rate of 18.2% per annum. The survey found out that the loan size appeared to be strong predictor of both net enterprise and household income. However, this study was rather narrow and only focused on the impact of loan facilities on microenterprises and negated the role played by business training and saving in the overall success of any given microenterprise.

There are other various studies that have focused on the impact of business training as a service offered by microfinance institutions on business performance. For instance, available literature supports the fact that majority of microfinance institutions clients do not have specialized skills and so cannot make good use of microfinance service (Karnani, 2007). For a microfinance institution, it may therefore be useful to provide such training. (Rhyne 2001). Financially literate microfinance clients, it has been established, help to reinforce competitive pressures on microfinance institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively and forcing microfinance institutions engage in multi lending (Namusonge, 1999). Therefore, there is no doubt that business training is critical, but not in isolation, for performance of microenterprises. Worth noting also is the role of saving in microenterprise performance. Tecla (2012) citing Harper (2003) resonates with the fact that domestic savings provide the assets for the economy's investment in future production without which the economy cannot grow unless there are alternative sources of income.

Therefore, many studies which have attempted to establish impact of microfinance services on microenterprises have done so isolating individual services in each case. However, this study endeavored to harmonize the influence of the three key microfinance services; microcredit, business training and saving facilities, on performance of microenterprises. By so doing, the study provided a new frontier of analyzing the influence of microfinance services on performance of microenterprises.

3.0 METHODOLOGY

This study employed a descriptive research with a target population of the group officials of Faulu Kenya Kitale branch estimated to be 45 that prompted working with entire population. A Census sampling technique was employed on the entire 45 groups in Faulu Kenya Kitale Branch to minister the questionnaire and interview on a proportionate base .This is because the groups are well scattered within the Trans Nzoia County and for easy accessibility by the researcher (Saunders *et al.*, 2007; Sekaran, 2000). The main instrument of data collection was the questionnaire dAtA WAs collected through distribution of questionnaires to respective individuals in the study area and collecting them immediately after filling. Pilot test was done to test the validity and reliability of the instrument. The data collected was checked for completeness and comprehensibility, coded and tabulated, entered into the Statistical Package for Social Sciences (SPSS) for analysis. multiple regression was used to analyse data.

4.0 Discussion

On table 4.3 below, the respondents were asked whether lack of savings makes it difficult The study sought to establish the effect of saving facilities on micro enterprise Performance in Faulu bank in Kitale. The findings are presented in a five point Likert scale where SA=strongly agree, A=agree, N=neutral, D=disagree, SD=strongly disagree and T=total.

From table for micro enterprise owners to access loans. The distribution of findings showed that 5.5 percent of the respondents strongly agreed, 35.5 percent of them agreed, 30.9 percent of the were neutral, 11.8 percent disagreed while 16.4 percent of them strongly disagreed. These findings implied that lack of savings makes it difficult for micro enterprise owners to access loans.

The respondents were also asked whether many low income people usually save through informal channels like groups and assets. The distribution of the responses indicated that 6.4 percent strongly agreed to the statement, 36.4 percent of them agreed, and 19.1 percent of them were neutral, 27.3 percent of them disagreed while 10.9 percent of them strongly disagreed to the statement. These findings implied that many low income people usually save through informal channels like groups and assets.

The respondents were also asked whether Faulu has developed micro saving products. The distribution of the responses indicated that 12.7 percent strongly agreed to the statement, 41.8 percent of them agreed, 17.3 percent of them were neutral, 22.7 percent of them disagreed while 5.5 percent of them strongly disagreed to the statement. These findings implied Faulu has developed micro saving products..

The respondents were further asked whether micro saving has empowered rural business people. The distribution of the responses indicated that 0.9 percent strongly agreed to the statement, 52.7 percent of them agreed, 18.2 percent of them were neutral while 6.4 percent and 21.8 percent of them disagreed strongly and disagreed to the statement respectively. These findings implied that micro saving has empowered rural business people.

Finally, the respondents were asked whether good group leadership motivates individual savings apart from saving for emergencies.The distribution of the responses indicated that 28.2 percent strongly agreed to the statement, 36.4 percent of them agreed, 17.3 percent of them were neutral, 12.7 percent of them disagreed while 5.5 percent of them strongly disagreed to the statement respectively. These findings implied that good group leadership motivates individual savings apart from saving for emergencies.

Table 4.3: Effect of saving facilities on micro enterprise performance

Statements		**SA**	**A**	**N**	**D**	**SD**	**T**
Lack of saving makes it difficult for micro enterprise owners to access loans	%	5.5	35.5	30.9	11.8	16.4	100
Many low income people usually save through informal channels like groups and assets	%	6.4	36.4	19.1	27.3	10.9	100
Faulu has developed micro saving products	%	12.7	41.8	17.3	22.7	5.5	100
Micro saving has empowered rural business people	%	0.9	52.7	18.2	6.4	21.8	100
Good leadership motivates individual savings apart from saving for emergencies	%	28.2	36.4	17.3	12.7	5.5	100

4.6 Inferential Statistics

4.6.1 Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence interval (error margin of 0.05). Table 4.6 illustrates the findings of the study.

Table 4.6: Correlation Matrix

		MicroEnterprise Performance
Saving facilities	Pearson Correlation	.711**
	Sig. (2-tailed)	.000
	N	110

As shown on Table 4.6 above, the p-value, the p-value for saving facilities was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.711, which represented a strong, positive relationship between business saving and micro enterprise performance.

4.6.2 Multiple Linear Regression

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

4.6.2.1 Coefficient of Determination (R^2)

Table 4.8 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how saving facilities affects micro enterprise performance at Faulu bank, Kitale. The results also indicate that the independent variables are predictors of the dependent variable. The results reported F=10.178 as shown below.

Table 4.8: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	686.766	4	171.691	10.178	.000[b]
	Residual	1771.234	105	16.869		
	Total	2458.000	109			

The results in table 4.9 indicate that all the independent variables have a significant positive effect on micro enterprise performance. saving facilities with a coefficient of 0.360 (p-value = 0.023). According to this model when all the independent variables values are zero, micro enterprise performance of will have a score of 29.741.

Table 4.9: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	29.741	2.638		11.273	.000
Saving Facilities	.360	.156	.353	2.308	.023

4.6.3 Hypothesis Testing

Ho$_1$: Saving facilities does not have a significant effect on micro enterprise performance of Faulu bank of Kenya, Trans-Nzoia County.

From Table 4.9 above, saving facilities (β = 0.360) was found to be positively related micro enterprise performance. From t-test analysis, the t -value was found to be2.308 and the ρ -value 0.023. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that saving facilities affects micro enterprise performance of Faulu bank of Kenya in Trans-Nzoia County.

5.0 Conclusion, Recommendations

The distribution of findings showed that majority of the respondents agreed that lack of savings makes it difficult for micro enterprise owners to access loans.

On the statement of many low income people usually save through informal channels like groups and assets. 6.4 percent strongly agreed to the statement, 36.4 percent of them agreed to the statement. These findings implied that many low income people usually save through informal channels like groups and assets. On the statement of Faulu has developed micro saving products. The distribution of the responses indicated that 12.7 percent strongly agreed to the statement, 41.8 percent of them agreed, These findings implied Faulu has developed micro saving products. Majority also responded that micro saving has empowered rural business people and that good group leadership motivates individual savings apart from saving for emergencies.

Based on the finding, it was recommended that micro finance institutions should audit their services offered to clients besides financial one like training and savings sensitization to improve on their quality for micro enterprise productivity enhancement. Establish policy framework for expansion of the activities of microfinance institutions.

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