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MICRO-CREDIT FINANCING AND SUSTAINABILITY OF MICRO AGRO ENTERPRISES IN KENYA: A CASE OF MACHAKOS COUNTY

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ABSTRACT

The study purpose was to establish the effect of microcredit on micro agro enterprises and how they contribute to the sustainability of the micro agro businesses in Machakos. One key obstacle to growth and sustainability of micro agro enterprises is inaccessibility of micro credit and micro capital to start and sustain micro enterprises and other small micro and micro businesses. The study employed descriptive research design. The study was anchored on Game Theory of Microfinanceand Social Capital Theory. Stratified sampling that is random was adopted to select the study sample size of 129 micro agro enterprises. Data collection was done using a semi structured questionnaire. The analysis of the quantitative data involved both descriptive and inferential statistics. Correlation analysis of the study finding showed that there is a significant and positive association between table banking credit and sustainability of micro agro enterprises. Regression results showed that table banking credit has a strong positive relationship with sustainability of micro agro enterprises. The study also established that there is a significant and positive association between joint loans board credit and sustainability of micro agro enterprises. Regression analysis indicated that Joint Loan Boards have a strong positive relationship with sustainability of micro agro enterprises. The researcher findings further showed there is a positive and significant relationship between credit from Saving and Credit Cooperative Organizations and sustainability of micro agro. Regression analysis indicated that micro credit from Saving and Credit Cooperative Organizations have a strong positive relationship with sustainability of micro agro enterprises. Finally, correlation analysis showed that there is a positive and significant association between credit from MFIs and sustainability of micro agro credit. Regression analysis indicated that credit from MFIs have a strong positive relationship with sustainability of micro agro enterprises.

Keywords: Micro-credit, Financing and Sustainability, Micro Agro Enterprises, Table Banking, Joint Loan Boards.

INTRODUCTION

Background information

Micro enterprises globally form the backbone of progressive economies by generating household's incomes and creating self-employment. Research shows that the mortality rate of micro enterprises in the first 3 years is about 75% in any country (Babajide, 2011). Micro agro enterprises play a significant role in enhancing household incomes (Baierl, Grichnik, Sporrle, & Welpe, 2014). In this study that given the critical role of micro enterprises they deserve to be accorded credit and favorable policies to start, grow and be sustainable. Economic growth of a country is essentially triggered off by establishment and sustenance of micro enterprises supported by favorable socio economic policies and environment. Though an important element of economic growth micro enterprises are starved of micro credit and capital (Mutegi, Njeru, & Ongesa, 2015). The economy of South Korea was jump started by micro enterprises by 1.8% in a period of five years, between 2009-2013 (Wehinger, 2014). Bowen, Morara and Muriithi (2009) argue that lack credit and inaccessibility to micro capital is a teething problem which contributes to failure of micro enterprise start-ups.

Kenya's economy is based on agricultural products and this forms a good case for prioritizing credit and policies favoring flourishing of micro agro enterprises. The emergence of informal and formal micro credit sources is a welcome opportunity. The emerging economies especially in Africa should appreciate the role played by table banking, joint loan boards, Saving and Credit Cooperative Organizations and Micro Financial institutions. The situation is that the existing micro agro enterprises in Kenya are shunned by commercial banks for credit and hence lack micro credit which is a prerequisite for their growth and sustainability. Commercial banks concentrate on big viable enterprises starving micro agro enterprises of start credit. KEPSA Report, 2011 challenges the state to prioritize the importance of micro enterprises due to their immense contribution to economic growth and enhancement of GDP (KEPSA, 2011).

According to Atandi and Wabwoba (2014) micro credit has positive impact in poverty reduction, enhancing national output and economic growth and given the pivotal role should be accorded attention at policy making level and be facilitated to access credit to realize their potential in the economy (Chepkirui, 2011). This study points to justifiable concerns to importance of micro financing micro agro enterprises as key players in economic growth and development in Machakos County and hence the country. The study samples three concerns as follows: Firstly, the ability to reduce poverty through generation of household incomes and national output, secondly, creation of informal and self-employment. Thirdly, Micro financing micro agro enterprises lays a platform for improving GDP.

Statement Problem

The key obstacle to growth and sustainability of micro agro enterprises in the Kenya and specifically Machakos County is inaccessibility of micro credit and micro capital to start and sustain micro enterprises and other small micro and micro businesses. Bowen, Morara and Muriithi (2009) observe that micro enterprises are constrained by lack of credit to start, grow and be sustainable. Besides there are other challenges confronting micro enterprises including; institution and regulatory issues, unfavorable policies, political challenges social economical hurdles of recognition and lack of entrepreneurial culture in a country. Recently in Kenya, the micro entrepreneurial spirit has been rekindled and micro entrepreneurs are taking positions in the new scenario. However the micro entrepreneurs lack capital to start micro-enterprises and have no solid base for their sustainability.

There exists a problem in starting and sustaining micro agro enterprises due to lack of sustaining capital and support especially in rural areas. The selection of Machakos County as case study is appropriate in that similar problems cascade to the country and indeed the continent of Africa. The research study looks at the effect of micro credit borrowed from table banking, saving and Credit Cooperative Organizations, Joint loan boards and Micro Financial institutions. This study explores whether the micro credit enhances sustainability of the micro agro enterprise. In Kenya micro agro enterprises create self-employment opportunities, generation of incomes and are potential GDP boosters. Given the above position micro agro enterprises deserve consideration for policy tailored micro financing programs.

According to KNBS (2016) micro enterprises employ 8.3 M citizens and are growing at rate of 2% per annum and argue for real support by micro financiers including women table banking, Saving and Credit Cooperative Organizations, Joint loan boards and micro financial institutions. KNBS (2016) underscores the micro agro enterprises teething problem of inaccessibility to micro credit.

LITERATURE REVIEW

Theoretical Review

Game Theory of Microfinance

The Game Theory was proposed by Neumann Morgenstern in 1944. The Game Theory studies the models based on cooperation between decision makers and intelligent rational. As well as model of conflict. Game theory is used in intuiting how group borrowers play microfinance game with creditors for example micro enterprises (Von Neumann & Morgenstern, 1944). The game theory of finance supports the idea of group lending among small, medium enterprises. According to this theory there are various mechanisms depend on group borrowers to cooperatively regulate and enforce contracts themselves. This theory is based on Graeme lending model that is founded on group peer pressure in which credits are given to groups of between four to seven members. The member of a particular group jointly guarantee their fellow members' loan settlements and access to succeeding credit facilities base on successful repayments by all members of the group (Beaver, 2002). The lending model supports weekly repayments. The theory assumes that the team is efficient in discouraging loan defaulters. The game theory is used in this research since it has contributed to wider advantages due to its mutual trust arrangement at the expense of the group members.

Social Capital Theory

The Social Capital Theory was developed by Bourdieu in 1977. Social capital refers to the institution, relationships and norms that shape the quality and quantity of the society's social interactions (Bogan, Johnson, & Mhlanga, 2007). Social capital is resources enhance collective actions in an organization. These resources include networks, trust and norms in an organization to achieve a common purpose (Crone & Watts, 2010). Trust binds together members of a group in an organization. Trust assures that the cooperation from one party shall be reciprocated by the other party. Trust levels indicate cooperation among people (Eniola & Entebang, 2015). There are five dimensions that form the basis of this theory and these include networks, reciprocity trust, social norms and lastly the personal and collective efficacy (Garcia-Perez, 2012). Social capital helps people to take advantage of social interactions in obtaining given benefit. According to this theory, networks provide linkages between individuals in groups. However, the networks require a lot of trust among members for different people to cooperate and effectively work together (Eniola & Entebang, 2015). Social capital through networking is significant element of table banking with loan guarantor ship, accountabilities and mentorships standing out as main the benefits.

Empirical Review

Table Banking and Sustainable Micro-Agro Enterprises

Table banking is a group funding strategy where members save and borrow immediately from their savings on the table, either in short term or long term loans (Mutegi, Njeru, & Ongesa, 2015). A funding strategy where members contributes their savings and the same time allowed to borrow immediately is known as table banking, it is a concept which has been in existence for some time and is being practiced in many parts of the world (Karanja, Mwangi, & Nyakarimi, 2014). It caters for small business people who require credit to finance their income generating activities but are neither able to access credit from formal banks nor from most micro- finance institutions due to long distances, high charges and interest rates and conditionality's which they cannot meet (Baierl, Grichnik, Sporrle, & Welpe, 2014).

Joint Loan Board and Sustainable Micro-Agro Enterprises

Joint Loan Board Scheme are established to provide credit services to people who run and manage small trading loans that are provided for business enterprises. A survey conducted in Uasin Gishu district on the performance of the joint

loan Boards credit scheme (Chepkirui, 2011) revealed fundamental findings on the effect of credits advanced to MSEs by government lending institutions. Studies have shown that credit services provided for MSEs are not regularly serviced and this results in to defaulting that affects the services provided by Joint Loan Board. Available information, however, shows that repayment has been poor (either slow or nonexistent) and program sustainability has been compromised. As a result of poor repayment, a number of joint loan boards are dormant and others have substantial amounts committed to nonperforming loans (Mbugua, Wangoi, Kariuki, & Oganda, 2014). For example, the Rural Enterprise Fund is defunct, having collapsed with substantial outstanding balances. Atandi and Wabwoba, (2013) found that business owners assisted by Kenya Industrial Estates do not pay their debts on time or do not pay them at all, thus constraining that program's ability to help other enterprises.

Saving and Credit Cooperative Organizations and Sustainable Micro-Agro Enterprises

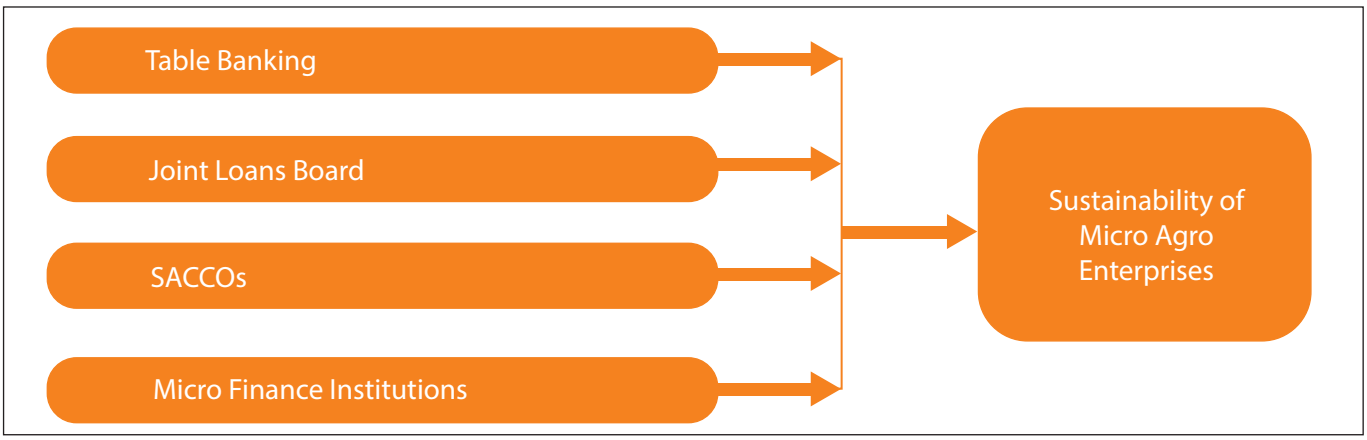
Saving and credit cooperatives are the most important players in the provision of financial services and these organizations are regulated by the act of parliament that is referred to as Co-operative Society Act. Vision 2030 has stipulated that saving and credit cooperatives societies plays an important roles in mobilizing investments and savings of their members. Loan volume granted by saving and Credit Cooperative Organizations refers to sum of money loaned to a customer that must be repaid with interest at some point in the future (Akwalu, 2014). The types of loans offered by saving and Credit Cooperative Organizations are mainly short-term and long-term loans. Operations of saving and Credit Cooperative Organizations are controlled and guided by credit policy statement (Kira & Zhongzhi, 2012). Saving and Credit Cooperative Organizations use stringent credit policy thus losing customers to other institutions with lenient credit policy; this has led to decline of loans granted.

MFIs and Sustainable Micro-Agro Enterprises

Micro-financing is the real genius of Micro financial institutions and is about the ability to find a suite for techniques in product design and management that solve the fundamental problem of controlling costs, building volume, keeping payment rates high and preventing fraud while operating with micro entrepreneurs (Yunus, 2008). Micro credit providers borrow heavily from this concept. There are numerous challenges encountered by micro credit providers and more so when dealing with borrowers without collateral. They have to contain default, suitable products and client's information asymmetries (Dang, 2015).

Kira and Zhongzhi (2012) argue that micro enterprises and informal sector are important in generation of incomes, creation of self-employment and generation of surplus. Recent studies on micro credit and sustainability of micro enterprise show that rigorous empirical analysis of impact of micro finance began in the 1990s. The studies remain scanty and highly provocative with gaps for further investigation. Kira and Zhongzhi (2012) define micro finance as the supply of credit to categories of citizens who might not otherwise have access them to or could borrow on highly unfavorable terms. Mugo (2012) holds that the spectacular growth of micro credit institutions have been fueled by hot market forces and the clock cannot be reversed. The question posed by researchers is how it has been possible for micro credit providers have mushroomed and achieved much within the last five years or so.

Conceptual Framework



Research Hypothesis

$H0_1$ There is a significant relationship between table banking and sustainability of micro enterprises
$H0_2$ There is a significant relationship between Joint Loan Board's Credit and sustainability of micro enterprises
$H0_3$ There is a significant relationship between SACCO's Credit and sustainability of micro enterprises
$H0_4$ There is a significant relationship between Micro Financial institutions credit and sustainability of micro enterprises.

RESEARCH METHODOLOGY

Research design

The research study was grounded on a research paradigm that is positive. The research employed descriptive research design. This design is the most appropriate since it ensures that the data obtained gives appropriate answers to the research questions. Descriptive study was used to describe characteristics of a population or phenomenon under study. The descriptive research methods can only describe a set of observations or the data collected (Zikmund, 2010). The target population was 8500 micro agro enterprises spread unevenly in the six constituencies in Machakos County. The number of micro enterprises per constituency was determined by equal division of 8500 micro enterprises by number of constituencies. They presented similarities in both goals and operations. Random sampling conveniently yielded reliable data representative of micro entrepreneurship and micro credit activities of the entire county.

The data was analyzed using descriptive statistics, inferential statistics and SSPS version 24.0. The inferential statistics were used to show the relationship that exists between the study variables. Pearson correlation matrix was used for predicting and describing the variables in terms of directions and magnitude while regression analysis was conducted at a level of 5%. Tables were used for presenting data that was first coded and organized according to study variables from which generalizations will be made. The study used Pearson correlation matrix which will be used. The multiple linear regressions were adopted for the joint effect to research study liner relationship among the variables that will be contains a coefficient B1 for each predictor that indicates each predictor model.

The general model for predicting challenges that face MFI was represented by the following model: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \ldots \beta n Xn + \varepsilon 1$. Where Y is the dependent variable and was a linear function of $X_1 X_2 X_3 \ldots X_4$ plus ε1, α is the regression constant or intercept, $\beta_1 \ldots n$ are the regression coefficient or change induced in Y by each X, $X_1 \ldots n$ are independent variables, ε1 is the error term that accounts for the variability in Y that cannot be explained by the linear effect of the predictor variables. To estimate model of composite index of organizational performance measure, **α** is a regression constant or intercept, β1-4 are the regression coefficient. EE represents the composite score of strategic leadership and is the independent variable. JRA represents the mediating variables composite index. The moderating variables are represented by IF which is the composite score of employee attitude and behaviour. ε_1 is the random error term that accounts for the viability of the challenges that cannot be explained by the linear effect of the predictor variables.

RESULTS AND FINDINGS

The study used Cronbach alpha to test for reliability of data. Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. The acceptance value of 0.70 was used as cut-off of the reliability for the study.

Table 4.1: *Reliability Statistics*

Variable	Cronbach alpha	Items	Comment
Table banking Credit	0.824	13	
Joint loan boards Credit			Reliable
Saving and Credit	0.831	13	Reliable
Cooperative Organizations Credit	0.807	13	Reliable
Micro Finance Institutions Credit	0.878	13	Reliable
Sustainability of micro agro enterprises	0.869	13	Reliable

The findings indicated that the Cronbach alpha for each of the variables was above the lower limit of acceptability thus reliable with table banking micro credit having a coefficient of 0.824; micro credit from Joint loan boards having a coefficient 0.831; micro credit from Saving and Credit Cooperative Organizations having a coefficient 0.807; micro credit from MFIs having a coefficient .878 while sustainability of micro agro enterprises having a coefficient of 0.869. The study findings were reliable.

Correlation Analysis

Correlation analysis is the statistical tool that can be utilized to determine the level of association between two variables (Beaver, 2002). This analysis can be seen as the initial step in statistical modeling to determine the association between the dependent and independent variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the strength of association between the independent variables as this would assist in developing a prediction multiple model which will reveal no relationship in cases where the value of the correlation is 0. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship (Dumbu & Chandamyo, 2012). Also, the relationship is considered small when β = ±0.1 to ±0.29, while the relationship is considered medium when β = ±0.30 to ±0.49, and when β is ±0.50 and above, the relationship can be considered strong.

Table 4.2 *Correlation Matrix*

		Sustainability of micro agro enterprises	Table banking	Joint loan boards	Saving and Credit Cooperative Organizations	MFIs
Sustainability of micro agro enterprises	Pearson Correlation Sig. (2-tailed)	1.000				
Table banking Credit	Pearson Correlation Sig. (2-tailed)	.762* 0.000	1.000			
Joint loan boards Credit	Pearson Correlation Sig. (2-tailed)	.791* 0.000	.678* 0.000	1.000		
Saving and Credit	Pearson Correlation Sig. (2-tailed)	.782* 0.00	.667* 0.000	.716* 0.000	1.000	
Cooperative Organizations Credit MFIs Credit	Pearson Correlation Sig. (2-tailed)	0.773* 0.000	.693* 0.000	.707* 0.000	.653* 0.000	1.000

** Correlation is significant at the 0.05 level (2-tailed).*

Results indicates that table banking credit and sustainability of micro agro enterprises are positively and significantly associated (β = .762, p=0.000). The results are in agreement with Ngumbau, Kirimi and Senaji (2017), who conducted a study on the relationship between table banking and the growth of women owned micro and small enterprises in Uhuru market, Nairobi County and established that table banking had positive significant influence on the growth of women owned medium and small enterprises.

Multiple Linear Regression Analysis

Table 4.3: *Model Fitness*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.889	.791	.783	.22544

The results presented in table 4.3 present the overall fitness model used of the regression model in explaining the study phenomena. Independent variables were found to be satisfactory in explaining sustainability of micro agro enterprises. This is supported by coefficient of determination also known as the R square of 79.1%. This means that independent variables explain 79.1% of the variations in the dependent variable which is sustainability of micro agro enterprises. Table 4.3 provides the results on the analysis of the variance (ANOVA).

Table 4.4: *Analysis of Variance (ANOVA)*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.534	4	5.384	105.930	.000
Residual	5.692	112	.051		
Total	**27.226**	**116**			

The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors explaining the sustainability of micro agro enterprises. This was supported by an F statistic of 105.930 and the reported p-value of 0.000 which was less than the conventional probability significance level of 0.05 implying that the independent variables (table banking credit, credit from Joint loan boards, credit from Saving and Credit Cooperative Organizations and credit from MFIs) were significant in predicting the dependent variable (sustainability of micro agro enterprises).

Table 4.5: *Regression of Coefficient*

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.419	.061		6.8689	0.00
Table banking credit	.237	.071	.224	3.341	0.00
Joint loan boards credit	.273	.074	.261	3.665	0.00
Saving and Credit Cooperative Organizations credit	.290	.069	.284	4.226	0.00
Micro Finance Institutions credit	.274	.075	.248	3.640	0.00

Regression of standardized coefficients results in table 4.13 shows that table banking micro credit and sustainability of micro agro enterprises are positively and significantly related (β =.237, p=0.001). The table further indicates that micro credit from Joint loan boards and sustainability of micro agro enterprises are positively and significantly related (β =.273, p=0.000). The multiple regression models indicated that micro credit from Saving and Credit Cooperative Organizations had the largest influence on sustainability of micro agro enterprises with a coefficient of .290, followed by that of micro credit from MFIs (.274), micro credit from Joint loan boards (.23) and finally table banking micro credit with a coefficient of 0.234.

The overall model was $Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4$

Thus, the overall model for the study is $Y=.419+.237X_1+.273\,X_2+.290X_3+.274X_4$

Where:

Y= Sustainability of Micro Agro Enterprises
X_1= Table Banking Credit
X_2= Joint Loan Boards Credit
X_3= Saving and Credit Cooperative Organizations Credit
X_4= Micro Finance Institutions Credit

Model Optimization

Based on the results in Table 4.5 a model optimization was conducted. The aim of model optimization was to guide in derivation of the final model (revised conceptual framework) where only the significant variables are included for objectivity. Results in table 4.5 were arrived at through running multiple regressions. To obtain optimal model, the original conceptual framework was rearranged based on the influence of each of the independent variables on the dependent variable (sustainability of micro agro enterprises).

Conclusion

The study concludes table banking credit has a strong positive relationship with sustainability of micro agro enterprises and table banking has the ability to offer savings and credit services at affordable rates compared to the formal banks and micro-finance institutions and because its formation is far much cheaper than developing a micro-finance client base. On credit from joint loan boards the study concludes that there is a strong positive relationship with sustainability of micro agro enterprises. On Saving and Credit Cooperative Organizations the study also concludes that there is positive relationship with sustainability of micro agro enterprises, and the overall objective of Saving and Credit Cooperative Organizations is to mobilize financial savings and lend to the members at reasonable low interest rate. Saving and Credit Cooperative Organizations are indeed vehicles for promoting socio-economic development, value addition, creating of wealth and source credit for enterprises of any size.

The study concludes that there is a role for microfinance and microcredit as sustainers of microenterprise. However, it is emphasized that if the sources of microcredit namely micro financial institutions, table banking, joint group lending schemes, Saving and credit cooperative organization 's and joint loan boards are chosen as a key source of microcredit for microenterprises as a government policy, these is need to set clear objectives for indicators of economic empowerment for the people. More important microcredit enables households to improve their incomes and contribute to economic development.

Recommendation

The study recommends that micro entrepreneurs require basic training in management of their credit the study recommend that the microfinance institutions, Saving and credit cooperative organization's and joint loans boards and other microfinance lenders should make provision for imparting management skills especially basic financial skills and marketing of products at a minimum cost to the beneficiaries of the microcredit based on solid policy framework. We believe a law covering this area is overdue not just the cooperative society's act. The microfinance for microenterprises majorly benefits the informal sector of the economy. We require solid policies placing the informal.

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