ANALYSIS OF MICRO FINANCE SERVISES ON FINANCIAL PERFORMANCE OF YOUTH-LED ENTERPRISES IN HAMISI SUB-COUNTY, KENYA

BY

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DECLARATION

I hereby declare that this research proposal is my original work and that it has never been submitted to any learning institution for any examination.

Sign: .... Date: 7/12/2016...................................

This research proposal has been submitted for examination with my approval as the university supervisor.

Sign: .... Date: 7/12/2016...................................

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I sincerely express my gratitude to Maseno University Library staff for their support in writing this report.

I could have not accomplished this task without the help of a great many people.

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Above all and in all I express my gratitude to the Most High God for His divine love which He has expressed to me through his dear Son, Jesus Christ, My Lord and Savior.

Love so amazing, so divine, demands my soul, my life, my all. When I survey the wondrous cross, on which the prince of glory died, my richest gain I count but loss, and pour contempt on all my pride.

DEDICATION

I dedicate this research work to my loving wife Annett Afandi Khayesi and my dear son and daughters; Trevin Livere, Tania Ashihundu and Trenda Khagali for their endless love, inspiration and encouragement throughout my Master of Business Administration program. To you I say thank you and God bless you.

ABSTRACT

In recent years, both developed and developing countries support for SMEs development and growth has increased. The YLEs sector in Kenya has grown tremendously over the last two decades but its growth is characterized by low productivity. Up to 80% of new businesses collapse within their first three years of operation and 48% of the youth have less than 50% likelihood of business success. 78% of the Youth in Vihiga County are unemployed. There was no known information about how micro finance services influences the financial performance of YLEs in Hamisi Sub-County. The purpose of the study was to perform an analysis of micro finance services on financial performance of YLEs in Hamisi Sub-County. The specific objectives of the study were to: determine the relationship between micro lending and performance of YLEs, establish the influence of savings mobilization on performance of YLEs, determine the influence of financial training on performance of YLEs and analyze the influence of market linkage on performance of YLEs in Hamisi Sub-County. The study was guided by the pecking order theory, the independent variable was the micro finance services while the dependent variable was performance. The target population was 119 registered YLEs. Simple random sampling approach was used to obtain a sample of 36 YLEs. Primary data was obtained from the chairpersons using a self administered pretest structured and semi structured questionnaire. Secondary data was obtained from journals, and reports. The study employed a descriptive research design. A pilot study was conducted and a reliability coefficient of 0.60 was set as a cut-off point. The descriptive statistics involved the use of frequencies and percentages. Multiple linear regression analysis was used to establish the relationship and magnitude between independent and dependent variable. The data was interpreted and presented in frequency and percentage tables and graphs. The study results showed a positive relationship between the independent and dependent variables with the coefficients of access to loan, training, market linkage and savings mobilization being 0.345, 0.265, 0.211 and 0.231 respectively. The study indicated R as 0.963 and R^2 as 0.927. The study therefore rejects the hypotheses. The study concluded that provision of services was below expectation. The study recommended a micro-insurance scheme to be included in the micro-finance package. The study findings will be used by researchers interested in the area.

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ABBREVIATIONS AND ACRONYMS

YEDF-Youth Enterprise Development Fund

UNDP-United Nations Development Program

KNBS-Kenya National Bureau of Standards

ILO-International Labor Organization

SME-Small and Medium Enterprises

GDP-Gross Domestic Product

MSMEs-Micro Small and Medium Enterprises

YLEs- Youth-Led Enterprises

OPERATIONAL DEFINITION OF TERMS

Microfinance institutions-these are the private sector lending organizations who offer credit facilities both long term and short term to small and medium scale sectors.

Small and Medium scale sectors-these are businesses with at least one employee and at most fifty employees.

Capital base-this is the average stock value invested in small and medium scale enterprises.

Interest income-this include the profit received by small and medium scale enterprises.

Savings-include the money left aside for future use after consumption and investment are substantiated as expenditures from total income earned.

Youth-led enterprises- these are entrepreneurships initiated and run by the youth.

Microfinance services-refer to small loans, savings mobilization and training in micro enterprise investment.

Return on Investment (ROI) - This is the benefit to an investor resulting from an investment of some source.

Micro-lending-This is a form of financing that provides small amounts of money to typically very poor fledging entrepreneurs to encourage self-sufficiency and to end poverty.

Financial training - the possession of knowledge and understanding of financial matter.

Market linkage – this is the market focused collaboration among different stakeholders.

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CHAPTER ONE

INTRODUCTION

This chapter presents the background information, statement of the problem, objectives of the study and hypotheses. It also contains scope of the study, justification of the study and conceptual framework.

1.1 BACKGROUND OF THE STUDY

The global youth population is very large (Youth Save, 2010). Of the world`s more than three billion people estimated to be under the age of 25, approximately 1.3 billion are between the ages of 15 and 24. Just under half of these young people live on less than two dollars a day, as estimated by the UN (Youth Save, 2010). Unemployment especially among the youth also leads to high risk behavior-crime, drugs and spread of HIV/AIDS (Youth Save, 2010). Moreover in line most cultures in developing countries, the employed have to look after the unemployed extended family members, thereby reducing their abilities to save and opportunities for wealth creation that is needed to spur economic growth (Wright 2005). To this end, microfinance, the provision of a wide range of financial services had proved immensely valuable to poor people especially the youth and women on a sustainable basis. Access to financial services has allowed many families throughout the developing world to make significant progress in their own efforts to escape poverty (Wright 2005).

Micro finance services refer mainly to small loans; savings mobilization and training in microenterprise investment services extended to poor people to enable them undertake self employment projects that generate income. Micro finance came into being after the appreciation that micro entrepreneurs and some poor clients can be `bankable` that is they can pay both the principal and interest on time and also make savings, provided financial services are tailored to suit their needs (Van et al, 2007).

Micro finance is perceived 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 (Hidgerwoods, 1999; Cristen and Rsenberg, 2000). 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. In many cases, basic business skill training should accompany the provisions of micro loans to improve the capacity of the poor (Webster and Fiddler, 1996). Inadequate information and knowledge about micro loans has limited the growth and sustainability of youth owned enterprises in Hamisi Sub-County.

In the world over, the provision of microfinance services to the youth has been an innovative and sustainable approach to youth financial and micro enterprise activities empowerment leading to generation of income so as to improve the livelihoods and contribute to economic growth

(Murray and Rosenberg, 2006). For many youth, savings facilities are essential in increasing the amount of income under their control and in building assets. A number of studies have observed that savings-led groups perform better than credit-led ones (Murray and Rosenberg, 2006). But there is insufficient information about the influence of savings mobilization on profit of youth-led enterprises in Hamisi Sub-County.

According to one UK study (Tackey and Perryman, 1999), young graduates who started a business were motivated primarily by desires for independence and flexibility rather than job security or riches. Furthermore evidence from Italy showed that young people were more innovative and often created new forms of independent work (Belusi, 1999). Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However their limited international marketing experience, poor quality control and product standardization and little access to international partners continue to impede SMEs expansion into international markets (Aryeetey et al, 2005). They also lacked the necessary information about foreign markets. Despite these various studies, there is no precise information about the influence of market linkage on profit of the youth-led enterprises in Hamisi Sub-County.

One important problem that SMEs often faced was access to capital (Lader, 1996). Lack of adequate financial services places significant constraints on SMEs development. Cook and Nixon, (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process of many developing countries, SMEs development was always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. The role of finance has been viewed as a critical element for the development of SMEs. A World Bank study found out that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al, 1995). Levy, (1993) also found that there was limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. According to Omondi, (2013); Youth enterprise inhibiting factors and opportunities, he found out that education and vocational training have no positive correlation between an individual`s decision to pursue business activities. He argued that the training offered seems to play a vital role, it may however not be positive in giving solutions to entrepreneurship in youth development. Increased human capital significantly deterred entrepreneurship. Kenya Economic Report (2013) reveals that the Kenya Labour market is characterized by a number of challenges including: high youth unemployment. The respective unemployment rates for the 15-35 and 15-24 age groups based on the 2009 census data are 10.4% and 14.2%, high levels of underemployment; and high levels of underemployment in the informal sector. Informality is widespread across Kenya`s regions but is more pronounced in rural areas. The bulk of the employed labour force is in smallholder agriculture and the rapidly growing informal sector. However most of the informal economy jobs are vulnerable i.e the jobs lack the `collective aspects` that make up decent work. These aspects include: productive work, workplace security, better prospects for personal development, social protection and social integration; and Kenya`s labour force has relatively low education attainment compared to middle-income countries. About 65% of the population has only primary or incomplete secondary education, while another 10% has never attended school. Given the above labour market challenges, government interventions to address unemployment should also give attention to skills development and training. There is therefore insufficient literature about the influence of financial training on profit of youth-led enterprises in Hamisi Sub-County.

Many of the business environments in Kenya is largely composed of Micro Small and Medium Enterprises (MSMEs) that account for approximately 75% of the nation`s employment force and contributing an estimated 18% of GDP. Lack of human resource development in this segment of the economy and additionally inadequate technical and entrepreneurial skills puts the lives and future development of these MSMEs at a disadvantage hence the need to support human resource development in those sectors and funding to aid in capital formation so as to give them competitiveness. (G.O.K, 2012). The target on MSMEs is broad because of their economic contrition to the economy. The total number of persons engaged in both formal and informal sectors increased from 12.8 Million in 2012 to 13.5 Million in 2013, translating to 742.8 thousand new jobs. (Kenya Economic Report, 2014). Despite the huge potential of the MSMEs in the country, the category faces array of challenges in their establishment, thus limiting their growth to maturity in order to form stable and suitable businesses that create a quantifiable number of employment for the youths. Since many of these ventures in the MSMEs are undertaken by the youth, the youth development ends up being slower and causing a wide social economic gap with the other working citizens.

Rotich. et al, (2014); In his study he found out that access to savings scheme, managerial training and loan grace period were statistically significant in determining the performance of MSMEs.

Mugori. (2012); In his study revealed that loan had the largest significant effect on the financial performance of small and medium enterprises followed by savings mobilization and training in micro enterprise investment had the least significant effect.

1.2 STATEMENT OF THE PROBLEM

Small enterprises play an important role in the Kenyan economy. The sector contributed over 50% of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five SME businesses fail within the first few month of operation. While little evidence exists that these small firms grow into medium size firms employing 50-100 workers, many of these small firms have the potential to grow and add one to five employees. The Government conceived the idea of institutional financing to provide young people with access to finance to finance self-employment activities and entrepreneurial skills development as a way of addressing unemployment and poverty which are essentially youth problems. But even with strategies for accelerated youth development in Kenya in place, it is apparent that economic development of the youth has been lower than expected. There has been a high failure rate of youth-led enterprises, with up to 80% of new businesses collapsing within their first three years of operation. This leads to prolonged gross socio-economic disparities between the youth and the rest of the population whereas the underlying premise is that employment can be achieved by enhancing access to financial resources, entrepreneurship policies should focus on the growth of youth enterprises too. Other studies showed that there is no significant relationship between micro finance services and savings or investment among the youth. However, a positive significance was revealed of micro finance services on financial management skills, while in another study it was revealed that loan had the largest significance effect on the financial performance of small and medium enterprises followed by savings mobilization and training in micro enterprise and investment had the least significant effect. This study is unique since it brought out the extent to which market linkage influences the profit of youth-led enterprises in Hamisi Sub-County. To this end the study analyzed micro finance services on financial performance of youth-led enterprises in Hamisi Sub-County which will reflect to rural areas in Kenya.

1.3 OBJECTIVES OF THE STUDY

The general objective is to analyze the micro finance services on financial performance of youth-led enterprises in Hamisi Sub-County, Kenya.

1.3.1 Specific Objectives

(i) To determine the relationship between micro lending and performance of the youth-led enterprises in hamisi sub-county.
(ii) To establish the influence of savings mobilization on performance of the youth-led enterprises in Hamisi Sub-County.
(iii) To establish the influence of market linkage on performance of the youth-led enterprises in Hamisi Sub-County.
(iv) To determine the influence of financial training on performance of the youth-led enterprises in Hamisi Sub-County.

1.3.2 Hypotheses

H_{a_1} There is no relationship between micro lending and ROI of the youth-led enterprises in Hamisi Sub-County.
H_{a_2} Savings mobilization has no influence on ROI of youth-led enterprises in Hamisi Sub-County
H_{a_3} Market linkage has no influence on ROI of youth-led enterprises in Hamisi Sub-County.
H_{a_4} Financial training has no influence on ROI of youth-led enterprises in Hamisi Sub-County.

1.4 Scope of the study

The study`s scope was defined by geographical area of the study (i.e Hamisi Sub-County), the nature of the youth-led enterprises, subject of the study and time of the study. For investigation the study selected only youth-led enterprises from Hamisi Sub-County due to proximity, cost of data collection and access to available data.

1.5 Justification of the study

The study intends to provide empirical evidence to assess the influence of micro finance services on performance of youth-led enterprises in Kenya. The study also provided data and information hitherto not available to assist the government to measure the success of YEDF in reducing youth unemployment rates in the country through development of youth owned enterprises, it also assisted in the identification of areas of weakness in the operation of YEDF and identified ways of eliminating or reducing them so as to maximize the benefit to Kenyan youth. It acted as an evaluation to the YEDF board. Study findings can be used by other researchers and academicians interested in the area. Policy makers can use the findings as reference for policy guidelines on management of YEDF. This study contributed to literature by addressing the areas of weakness as regards government efforts to empower the youth since the inception of YEDF in 2007 and suggested remedial measures and gave areas of further study (Women Enterprise Fund, Uwezo Fund).

1.6 Conceptual Framework

This conceptual framework depicts an effect relationship between micro finance services and performance of youth-led enterprises through changes in savings, investments and financial management skills. Micro lending is the practice of granting small loans to those in need. Microloans may be loans for Kshs 2000, and are typically used to help somebody start a business. Recipients are most often poor people in urban areas and/or developing nations.

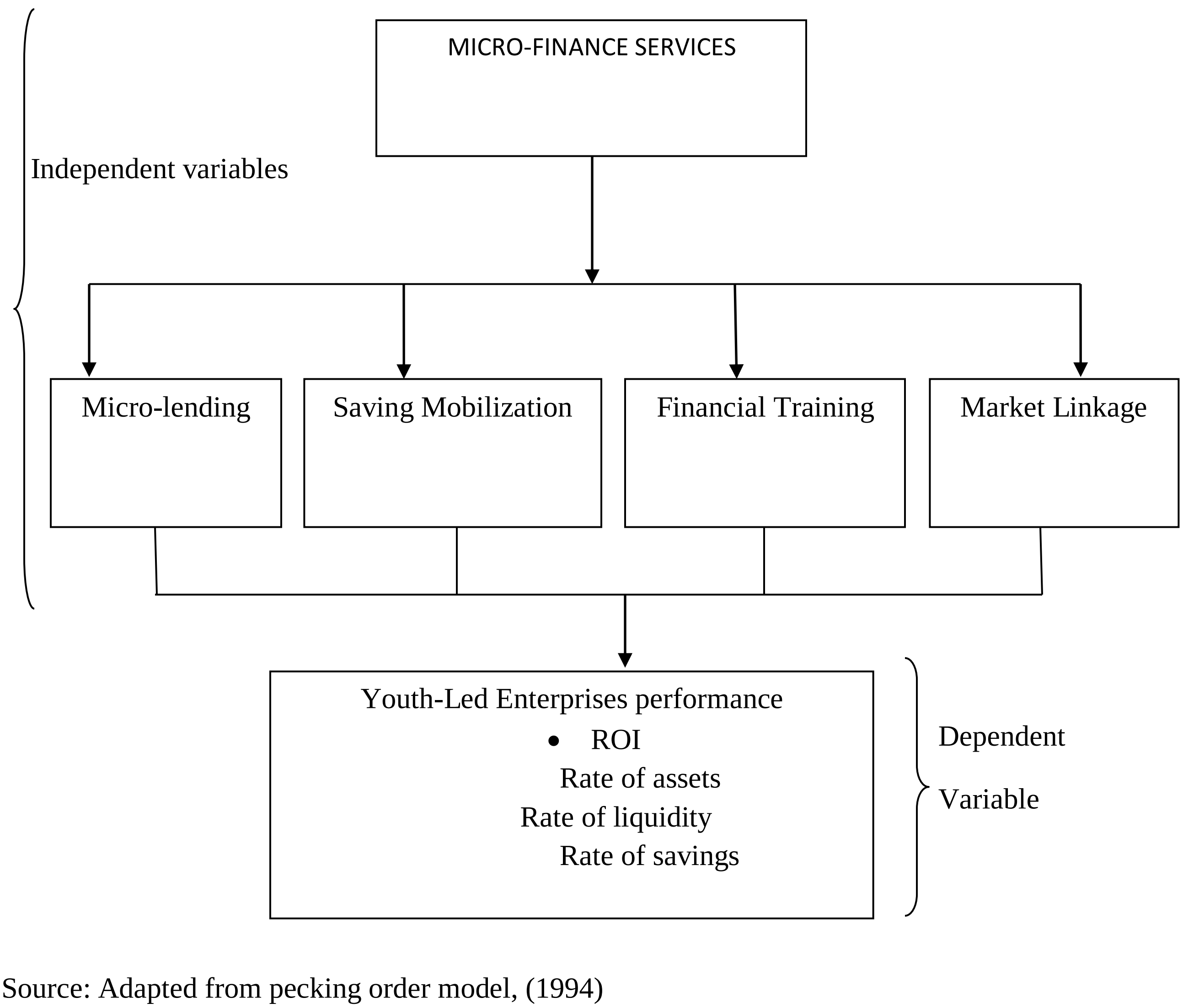
People tend to save to compensate for uneven income streams. Poor households save for various purposes, such as insurance against bad health, disability and other emergencies, investments, social and religious obligations, and future consumption. Poor households save in-cash, in-kind such as animals, gold, grain, land, raw material and the like. They also use rotating savings and credit associations and other forms of financial and nonfinancial savings and loans associations because of limited access to appropriate deposit facilities.

Micro-lending is a form of finance that provides small amounts of money to typically poor fledging entrepreneurs to encourage self sufficiency and to end poverty, Financial training is the possession of knowledge and understanding of financial matter and market linkage is market focused collaboration among different stakeholders.

The pecking order model

This model was initially proposed by Myers (1994) and suggested that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt and finally external equity. This model attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally. If retained earnings are insufficient, they will opt for debt rather than equity finance, because debt providers with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers will only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing will reflect a company's need for external funds and unlike the trade off approach there will be not necessarily be any target or optimal level of gearing.

The study adopted a conceptual framework that explained the effects of influence of microfinance services on performance of youth-led Enterprises in Hamisi Sub-County.



Source: Adapted from pecking order model, (1994)

CHAPTER TWO

LITERATURE REVIEW

This section reviews the literature on creation of youth entrepreneurs from global, African and Kenyan perspectives, performance of the youth enterprises and their impact as far as reducing youth unemployment is concerned. Theoretical literature is mainly from text books, journals, internet and other literally materials which are reviewed in line with the research hypotheses of the study in order to identify the knowledge gaps. The empirical literature presents studies undertaken on enterprise/firm performance.

2.1 Theoretical perspective

2.1.1 Theories

The pecking-order model

This model attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally. If retained earnings are insufficient, they will opt for debt rather than equity finance, because debt providers with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers will only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing will reflect a company's need for external funds and unlike the trade-off approach there will be not necessarily be any target or optimal level of gearing. This model was initially proposed by (Myers 1994) and suggested that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt and finally external equity.

Central concern appears to be a concentration by small firms on "sources of finance that minimize intrusion into business" (Lopez-Gracia & Ayba-Aria; 2000). Consequently firms do not have an optimal debt-equity ratio but rather it varies, justified by the firm's need of external finance. The pecking-order model to a great extent tells the way certain characteristics of a firm may influence gearing decisions as Myers suggested, some entities follow a certain hierarchy to determine which the next alternative source of finance is, and that fear of intrusion and dilution of power in an entity may cause a certain source to be selected. (Myers 1994) suggests that issuing debt secured by collateral may reduce the asymmetric information related costs in financing. The difference in information sets between the parties involved may lead to the moral hazard problem (hidden action) and/or adverse selection (hidden information). Hence, debt secured by collateral may mitigate asymmetric information related cost in financing. (Madole, H 2013).

Criticism of the theory

The model attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally. If retained earnings are insufficient, they will opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers will only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing will reflect a company's need for external funds and unlike the trade-off approach there will not necessarily be any target of optimal level of gearing. However it focuses on the productivity as the only tool to measure the performance of the enterprises it doesn't take to consideration other measures.

The pecking-order model to a great extent tells the way certain characteristics of a firm may influence gearing decisions. As Myers suggested, some entities follow a certain hierarchy to determine which the next alternative source of finance is, and that fear and dilution of power in an entity may cause a certain source to be selected. Myers (1994) suggests that issuing date secured by collateral may reduce the asymmetric information related costs in financing. The difference in information sets between the parties involved may lead to the moral hazard problem (hidden action) and/or adverse selection (hidden information). Hence, debt secured by collateral may mitigate asymmetric information related costs in financing. This theory has numerous advantages which include: one is able to exploit all avenues first before resorting to debt, takes to consideration profitable investments, and takes to consideration the urgency project and hierarchy of alternative source of finance. However, it also has the following limitation: Leads to moral hazard problem. This study was guided by the aspects which attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally.

The Poverty Alleviation Theory

The pressing need for rural economy is to create job for large unemployed and underemployed labour force. It is customarily argued that jobs can be created either by generating wage employment or by promoting self employment in non-firm activities. Creation of employment requires investment in small working capital. (Wahid, 1994) unfortunately income from other sources is low that they cannot generate investible surplus on their own. Thus obtaining credit under certain circumstances can help the poor accumulate their own capital and thus improve their living standards through the income generated from investments.

The trade-off model

Different explanations provide the critical basis for the decision taken by firms in the respective areas on the justification for the choice of financing sources and the appropriate mix. The trade off model postulates that the firm will aim at the optimal gearing levels that will balance the tax benefits of additional debt with the expected costs of finance distress as the level of indebtedness rises (Brieley, 2001; Bunn, Cunningham & Drehmann,2005).

Considering non- tax benefits of debt such as information asymmetries between lenders and borrowers, managers may raise equity only when company's shares seem overvalued. Investors will consequently discount any new and existing shares when a new equity issue is announced. Cassar & Holmes, (2001) found that firms' trade-off several aspects, including the exposure of the firm to bankruptcy and agency costs against the tax benefits associated with debt use. Firms are faced with higher cost of capital because of the increased risk of liquidation and thus they tend to avoid debt. However, firms use debt in order to enjoy tax benefits as a trade-off with the costs associated with bankruptcy and agency, and this implies that there is an optimal debt-equity ratio for the firm, which changes as benefits and costs alter over time (Modigliani & Miller, 1963). This model provides elaborate explanation for the objectives previously outlined in 1.3 where there is a need to understand the justifications for a particular mix of sources of capital due to various benefits and risks embedded in each of these. It is clearly evident that managers will opt for the mix of sources that minimizes the cost of capital but at the same time not exposing the entity to the factors that may adversely affect the going concern of the firm.

Microfinance credit Theory

Microfinance in Kenya is now fully fledged sector. (Dondo, 1999) traced the history of MFIs in Kenya to the mid-1950s when the joint Loan Board Scheme was established to provide credit to indigenous Kenyans with small trading business loans. The microfinance institutions sector in Kenya has grown since its inceptions in the 1970s and is one of the most established in Africa (Kashangaki et al, 1999). The birth of specialized microfinance in Kenya was in the 1980s when Kenya Rural Enterprise Fund (K-REP) and the Kenya Women Finance Trust (KWFT) wee published. In the 1990s more MFIs emerged for example Faulu, Kenya, Small and medium Enterprise Program commonly known as SMEP and Jamii Bora.

The concept of group lending is commonly herald as the main innovation of microfinance and claims to provide an answer to the short comings of imperfect credit markets, in particular to the challenge of overcoming information asymmetries. Information asymmetry may lead to the distinct phenomena of adverse selection and moral hazard. In the case of adverse selection, the lender lacks information on the riskiness of its borrowers. Riskier borrowers are more likely to default than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk default (Rahman, 2010).

Accordingly safer borrowers should be charged less provided each type can be accurately identified. Since the lender has incomplete information about the risk profile. In moral hazard generally refers to the loan utilization by the borrower that is the lender cannot be certain a loan, once disbursed, is used for its intended purpose, or that borrower applies the expected amounts of complementary inputs, especially effort and complementary skill, that are the basis for agreement to provide the loan. If these inputs are less than expected then the borrower may be less able to repay it (Rahman, Davanzo & Sultradhar, 2006)

The standard model of lending commonly contains two mechanisms which address the issue of information asymmetries: assertive matching or screening to deal with adverse selection, and peer monitoring to overcome moral hazard. Early models were developed by (Stiglitz, 1990), (Swain, 2008). These models examined how group liability schemes resolve moral hazard and monitoring problems.

Credit Access Theory

The credit theory was postulated by Stiglitz & Weiss (1981), they provided a framework for analyzing financial market inefficiencies. This framework provides that information asymmetry is the main cause of financial market malfunctioning in developing countries. Financial institutions that advance to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans.

Most financial institutions screen and monitor borrowers more efficiently than other investors can. They are specialized in gathering private information and treating it. Managing money and deposit accounts, banks own highly strategic information on firms "receipts and expenditures" as well as the way that firm develops (Kashyap, Stein & Wilcox, 1993).

In reference to (Stilglitz & Weiss, 1981) adverse selection and thus credit rationing still occurs if banks require collateral. They argue that low-risk borrowers expect a lower rate of return on average. Thus they are less wealthy than high-risk borrowers on average after some periods. Low-risk borrowers are therefore not able to provide more collateral. Increasing collateral requirements may have the same adverse selection effect as a higher interest rate/ instead Walsh (1998) argues that banks only offer contracts in which they simultaneously adjust interest rates and collateral requirements. He proved that there is always a combination of interest rate and collateral requirements. He proved that there is always a combination of interest and collateral requirements so that credit rationing does not occur (Jaffee & Russell, 1996).

The proponents of this theory argue that the most interesting form of credit rationing is equilibrium rationing, where the market has fully adjusted to the public where banks ration credit fee, available information and where demand for loans for loans for a certain market interest is greater than supply. (Stiglitz & Weiss, 1981) explains that credit rationing occurs if a financial institution charge the same interest rate to all borrowers, because they cannot distinguish between borrowers and screening borrowers perfectly is too expensive. Both assumptions are very simplifying and do not occur in this manner in the real world. Banks are usually able to distinguish their borrowers up to a certain degree.

The Theory of financial Intermediation

According to the theory of intermediation, current theories of the economic role of financial intermediaries build on the economics of imperfect information that began to emerge during the 1970s with the seminal contributions of Akerlof (1970) & Spence (1973) and (Bernanke & Blinder, 1992). Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders.

Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount credit channeled through financial intermediaries can have significant macroeconomic effects (Spence, 1973).

There are two strands in the literature that formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries "provision of liquidity". The second strand focuses on financial intermediaries "ability to transform" the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources. (Bernanke & Gertler 1995) analyzed the provision of liquidity and the transformation of liquid assets into liquid liabilities by banks. In (Adolfson, 2002) model, depositors are risk averse and uncertain about the timing of their future consumption needs. Banks can improve on a competitive market by providing better risk sharing among agents who need to consume at different times.

An intermediary promising investors a higher payoff for early consumption and a lower payoff for late consumption relative to the non-intermediated case enhances risk sharing and welfare. The optimal insurance contract in (Claus & Smith, 1999). The proponents of this theory explain that the modern theory of financial intermediation, financial intermediaries are active because market imperfections prevent savers and investors from trading directly with each other in an optimal way.

2.1.2 Micro-lending

Economic empowerment programs that empower the youth to have an entrepreneurial culture and foster enterprise creation are key to increasing youth employment and alleviating the serious cycle of poverty and social exclusion. Some examples of empowerment programs include equipping the youth with skills, giving access to capital so that they can start or expand their own business enterprises and ensuring collaborations with institutions and youth groups. Government need to encourage a broad and dynamic concept of entrepreneurship to stimulate both individual initiative and broader initiatives in a wide range of organizations which include the private sector; small and large enterprises, the public sector, workers and youth organizations. SMEs and micro-credit could provide opportunities for income generation in the absence of a formal economic structure as is evident in most developing countries (International Labour organization, 2010).

Amenya et al, (2010) stated that the youth predominantly worked as shopkeepers, street retailers and hair-dressers. The study further revealed that a majority of these youth did not know about local institutions and thus were unlikely to directly benefit from local development programs. Lack of employment opportunity, training premises, work sites and training facilities to the youth entrepreneurs hindered progression.

2.1.3 Savings mobilization

The ability to both borrow and save with an MFI may increase micro entrepreneur`s profits through lower interest rates and access to appropriately designed loan products. This also improves their ability to manage working capital needs through borrowing and savings at different times as required (Ledgerwood, 1998). Initially microfinance was called micro credit and lending was their main focus (Morduch, 2005). The transition from micro credit to microfinance has brought a change of outlook, a growing realization that the low income households can profit through a broader set of financial services than just credit. Notably, new initiatives are underway to create deposit accounts with terms and features that appeal to low income customers (Murduch, 2005).

Savings mobilization has long been a controversial issue in micro finance. In recent years, there has been increasing awareness among policy makers and practitioners that there is a vast number of informal savings schemes and MFIs around the world in particular, credit union organizations have been very successful in mobilization savings. These developments attest to the fact that low- income clients can and do save. The world Bank`s worldwide Inventory of Microfinance Institutions found that many of the largest most suitable institutions in micro finance rely heavily on savings mobilization.

In 1995, over $ 19 billion are held in the surveyed microfinance institutions in more than 45 million savings accounts compared to nearly $ 7 billion in 14 million active loan accounts. Often neglected in micro finance, deposits provide a highly valued service to the world`s poor who seldom have reliable places to store their money or the possibility to earn a return on savings. (Ledgerwood, 2002). Over the years, following numerous studies and models, it has become clear that the poor are actually bankable. They are able to save and repay loans; thus the microfinance industry today forms an integral part of the formal financial sector in many countries around the world. By 2006, there were more than 133 million microfinance clients, 70% of whom were among the world`s poorest people (Campion et al., 2008).

A strong culture of savings has meant that MFI outreach to depositors has far outweighed outreach to borrowers, although overall loan portfolio and total deposits have both increased steadily since 2008. High product-line diversification has allowed MFIs to evolve to meet customer needs, although growth has primarily targeted an urban clientele. Deposit accounts for nearly 70% of the funding base for the sector, with the savings of micro-depositors contributing the majority of these funds. Kenyan micro finance also benefits from the confidence of many international lenders, although the largest national source of micro finance credit is Kenya itself.

2.1.4 Financial training

According to Bruton et al, (2006), entrepreneurship training provided skills and training for business creation and development. It could play a major role in changing attitudes of young people and provide them with skills that could enable them start and manage small enterprises at some point in their lives. In a report developed collaboratively by the UNDP and the ILO, Kenya was encouraged to develop a training capacity entrepreneurship that could lead to the creation of an enterprise culture in the country.

Lack of business skills had been identified as a key barrier to youth entrepreneurship. According to Ghai cited in (Chigunta et al, 2005) entrepreneurship among young people is affected by a number of factors including lack of skills, social capital, knowledge and experience which have led to poor overall performance of the youth enterprises. On this account youth enterprises are highly vulnerable to failures (Entwuistle, 2008). The research by Meager et al, (2011) represents one of the most important sources of statistical analysis of links between self employments over and above any occupational skills which may be required. This include: the individual values, beliefs and attitudes, `soft` skills including interpersonal, communication and networking, realistic awareness of the risk and benefits of self-employment, functional business skills and relevant business knowledge. Further, the research underscores the importance of prior work experience, particularly if it includes previous spells of self employment, contributes to success in self-employment.

Highlighting the relationship between business skills and formalization, Pugh et al, (2003) drawing from empirical evidence posits that a firm`s growth also means a better structuring of its activities. Such a bureaucratization is expressed in more extensive standardization, an increase in formalization and higher specialization. On the basis of the above argument the following hypothesis has been formulated: Turning to relation between business skills and formalization, the results revealed that business skills positively influence attitude towards formalization. Various literatures shows that many of the youth entrepreneurs lack necessary business skills, which is likely to be a factor impeding formalization. On these grounds, the significance of processing such skills is that they provide entrepreneurs with the ability to comply with the demands and expectation of formal sector.

2.1.5 Market linkage

Gudda and Ngoze, (2009) posited that through collaborations and strategic partnerships, business collaborators could support the successful development of entrepreneurial projects of youth business ideas through an array of business support resources and services. The report further revealed that collaborative linkages and partnerships provided the necessary infrastructure that could make a substantial contribution to employment creation and drive an entrepreneurial culture to self-employment by creating jobs directly and successful business innovation through the use of new technologies, increases in productivity and further expand existing market opportunities which in turn strengthens incentives to innovate. Small businesses therefore contributed to one of the key pillars of sustained economic growth.

From an economic perspective, however, enterprises are not just suppliers, but also consumers. This plays an important role as they are able to position themselves in a market of purchasing power, their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by their demands for their clients. Demand in the form of investment play a dual role, both from a demand side (with regard to the suppliers of industrial goods) and the supply side (through the potential for new production arising from upgraded equipment). In addition demand, is important to the income generation potential of SMEs and their ability to stimulate the demand of both consumer and capital goods (Berry et al, 2002).

Most SMEs died within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity. Many factors have been identified as the contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper bookkeeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, lack of plan, cut throat competition, lack of official patronage of locally produced goods and services, dumping of foreign goods and over-concentration of decision making on one (key) person, usually the owner (Onuorah, 2009)

2.1.6 Performance of Youth-Led MSEs

Despite the central role of youth-led enterprises in employment, industrial transformation and poverty reduction, their competitiveness and growth prospects fall below the levels required to meet challenges of increasing and changing basis for competition, shifting patterns of legislation and regulations, tumbling trade barriers and fragmentation of markets (Moyi & Njiraini, 2005). Further challenges posed by globalization and liberalization suggest that MSEs must be internally and internationally competitive to survive and grow (UNIDO, 2002). In a market-oriented environment, one way of achieving and maintaining competitiveness is by creating knowledge faster than competitors. In turn, this depends on cost advantages, innovation and continuous improvement of products and services-all coming through the capability to generate and manage technical change (Moyi and Njiraini, 2005).

According to Iswatia and Anshoria (2007), performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. Financial performance emphasizes on variables related directly to financial report. The financial performance of a firm can be analyzed in terms of profitability, dividend growth, sales turnover, asset base, capital employed among others. However there is still debate among several disciplines regarding how the performance of firms should be measured and the factors that affect financial performance of firms should be measured and the factors that affect financial performance of companies (Liargovas and Sksndalis, 2008).

According to Maranga (2015), financial performance is measured by how better off the shareholder is at the end of a period, than he was at the beginning. The main objective of the shareholders in investing in business is to increase their wealth. Thus the measurement of performance of the business must give an indication of how wealthier the shareholder has become as a result of investment over a specific period of time. Almajali, alamro and Al-Soub (2012), argues that there are various measures of financial performance. For instance return on sales (ROS) reveals how much a company earns in relation to sales, return on assets (ROA) explains a firm's ability to make use of its assets and return on equity (ROE) reveals what return investors take for their investments. Company's performance can be evaluated in three dimensions. The first dimension is company's productivity or processing inputs into outputs efficiently. The second is profitability dimension, or the level at which company's earnings are bigger than its costs. The third dimension is market premium, or the level at which company's market value exceeds its book value (Walker,2001).

2.2 Review of empirical studies.

2.2.1 Micro-lending and performance of youth-led Enterprises.

Numerous studies have been done on micro-finance. Quaye (2011) studied the effect of microfinance institutions on the growth of small and medium scale enterprises (SMESs); a case study of selected SMEs in the Kumasi metropolis. The study examined the detailed profile of SMEs in the Kumasi metropolis of Ghana, the contribution of FMIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profile of SMEs show that most SMEs are at their micro stages since they employ less than six people and the sector is hugely dominated by the commerce sub-sector. The research also indicates that MFIs have had a positive effect on the growth of SMEs.

A study done by Madole (2013) on the impact of micro finance credit on the performance of SMEs in Tanzania, shows that credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in terms of: Increased business profit, increased business capital and assets as well as reduction of poverty among customers surveyed. Results also shows that collateral, age of experience of the SMEs owners, and size of the firm influence the access of credit. The study concluded most of the small businesses depended on bank loan for business capital growth. Bank loan especially NMB loan plays a very crucial role to promote small business growth. Although some of the businesses fail to repay bank loan due to various reasons such as grace period, moral hazard and high interest rate. In regard to the findings, however, it was recommended that MFIs should increase credit and enhances participation in SMEs financing in order to sustain the growth and maximal contribution to economic growth and development of the nation. Waithanji (2011) studied the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu county, Kenya. The study found out that there is direct relationship of access to credit and financial performance of the companies. The study also concludes that enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. There is need to provide an enabling environment for SMEs to grow and thrive, therefore there is a need to develop strategies to enhance increased access to microfinance credit by SMEs from commercial banks and microfinance institutions. There is no known knowledge and information on how micro loans affect growth and sustainability of youth owned enterprise in Hamisi Sub-County.

2.2.2 Market linkage and performance of Youth-Led Enterprises

Kemunto (2014) studied the impact of the youth enterprise development fund on the performance of youth owned enterprises in Kenya. The study investigated the impact of Youth Enterprise Development Fund on the performance of youth owned enterprises specifically exploring the factors that influence youth owned enterprises in Kenya. The study variables used were turnover of an enterprise, access to credit, market linkages, business training, employment created, age of entrepreneur, business experience, gender, tertiary and university education. The study results showed that tertiary education, age of entrepreneur, access to credit, market linkages and age of the enterprise as being statistically significant factors that influence youth enterprise performance at 5% significant level. There is no precise information about the influence of market linkage performance of the youth-led enterprises in Hamisi Sub-County.

2.2.3 Savings mobilization and performance of Youth-Led Enterprises

Omena and Ondoro (2013) studied the effect of micro finance services on financial empowerment of youth in Migori County, Kenya. The study showed that there is no significant relationship between microfinance services and savings or investment among the youth in Migori County. However a positive effect was revealed of micro finance services on financial management skills while Rotich (2014) in his study on effects of micro finance services on performance of small and medium enterprises in Kenya, found out that access to savings scheme, managerial training and loan grace period were statistically significant in determining the performance of MSMEs.

Mugori (2012) in his study on the effects access to micro finance on the financial performance of small and medium enterprises owned by the youth in Nairobi Kenya, revealed that loan had the largest significant effect on the financial performance of small and medium enterprises followed by savings mobilization and training in micro enterprise investment had the least significant effect.

A study by Odhiambo et al (2013) sought to determine the effect of Youth Enterprise Development Fund on youth enterprises. The study concluded that the Youth Enterprise Development Fund had not had a significant effect on youth enterprises and recommended increase in the number of financial intermediaries (Fis) in partnership with the fund and an active involvement of all the stakeholders in mobilization of the youth in group formation and Youth Enterprise Development Fund activities. The variables used were of successful applicants against total number of applicants for Youth Enterprise Development Fund loans in average amount of loan disbursed in each constituency and revolved repayment. Despite these studies there is insufficient information about the influence of savings mobilization on performance of youth-led enterprises in Hamisi Sub-County.

2.2.4 Financial training and performance of Youth-Led Enterprises.

Odhiambo (2013) while studying factors that influence performance of 43 youth owned MSEs in Kajiado North District in Kenya, found that management skills was a crucial factor that most of the MSEs were not properly equipped with. Out of the four variables (entrepreneurship training, networking, leadership styles and managerial skills) under study, the author established that a managerial skill was the most robust variable for enhanced performance of youth-led MSEs. In addition there still exists a massive managerial skills gap in the micro and small enterprises sector even though there were massive capacity building and training engagements being offered by different institutions of the sector (Kayanula and Quartey, 2000).

Maisiba et al (2004) looked at the role of Youth Enterprise Development Fund loans in job creation and asserted that Kenyan youth, in addition to being equipped with skills needed to be given access to capital so that they could start or expand their own business enterprise and change from being job seekers to job creators and that the fund did not have adequate structures to disburse funds. They concluded that the average nominal loan values disbursed was found to be low, insufficient and unsustainable; the result had been massive loan default with many enterprises becoming shadows of their true potential. The study recommended that further studies should be done on appropriate funding of Youth Enterprise Development Fund in Kenya. There is therefore insufficient literature about the influence of financial training on performance of youth-led enterprises in Hamisi Sub-County.

Several studies have been done on this area, Waithanji (2014) researched on the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu County and found that all SMEs borrow investment capital and they use it for the purpose in which they borrowed for, most of them do not have other form of financing before they started receiving financing from microfinance institutions. Another study done by Madole (2013) on the impact of microfinance credit on the performance SMEs in Tanzania found that; the role of financial institutions toward SMEs success is a vital important. Quaye (2011) did a study on the effect of micro finance institutions on the growth of small and medium scale enterprises (SMSEs); a case study of selected SMEs in the Kumasi metropolis. But none has done the study on the effect of micro finance services on the performance of youth-led enterprises in Hamisi Sub-County, Kenya.

Social impact studies indicate that microfinance programs do not have a positive impact on the poor households` income and consumption level only but on their social well-being as well. The improvement in the social well-being is reflected on recipients` level of education, health and children nutrition. Furthermore it extends to women feelings of empowerment and independence. According to Ghalib, (2007), all microfinance programs targets one thing in general; human development that is geared towards both the economic and social uplift of the people they cater for. He argued that tackling poverty points to multidimensional concepts that emphasizes on reducing unemployment, infant mortality, maintaining essential healthcare, sanitation, food, nutrition, basic hygiene and establishing gender equality. Micro finance programs have positive impacts on households` well-being which is indicated in the recipient of the micro-credit`s children`s education, health and household nutrition especially when the recipients are women (Zamen; Panjaitan-Drioadisuryo; Cloud, 1999; Pitt et al., 2003). Due to Insufficient information and knowledge about micro loans has limited the growth and sustainability of youth owned enterprises. There is insufficient information about the influence of savings mobilization on ROI of youth-led enterprises in Hamisi Sub-County. No precise information about the influence of market linkage on profit of the youth-led enterprises and there is insufficient literature about the influence of financial training on ROI of youth –led enterprises in Hamisi Sub-County.

CHAPTER THREE

METHODOLOGY

This component mainly includes the proposed research design, population, sample, data collection procedures and data analysis procedures.

3.1 Research Design

The study employed descriptive research design. Descriptive research design is the process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. A descriptive research design determines and reports the way things are. It attempts to describe such things as possible behavior, attitudes, values and characteristics (Mugenda and Mugenda, 2003)

3.2 Study Area

The area of study was Hamisi Sub-County situated on 00.07^0N, 34.88^0E in Vihiga County Kenya. Hamisi Sub-County boarders Nandi County on the Northern side. It also boarders Sabatia and Vihiga Sub-Counties in Vihiga County.

3.3 Target population

Population is the aggregate of all that conforms to a given specification (Mugenda and Mugenda 2008). The definition assumes that the population is not homogeneous. Hamisi Sub-County has 119 registered youth-led enterprises. The target population of this study was 119 youth-led enterprises who are beneficiaries of YEDF that was to spread out in various wards in Hamisi Sub-County.

3.4 Sampling techniques

The study took 30% of the target population as the sample, according to Orodho (2005). The percentage is considered adequate for small population because the sample was a representative of the entire population. The study therefore proceeded to pick 36 youth-led enterprises from the population of 119 youth-led enterprises operating within Hamisi Sub-County. Respondents from the youth-led enterprises were chosen purposively because only certain members of the enterprises i.e managers had the information required.

3.5 Data collection

3.5.1 Sources of data

Primary data was obtained from members by use of self administered pretest structured and semi-structured questionnaire. (See Appendix II). Secondary data was obtained from published books, journals, articles and reports.

3.5.2 Data collection procedure

The researcher personally visited the respondents and explained the purpose of the questionnaire. This assured the respondents of the confidentiality of their responses. With the help of a trained research assistant, the researcher and the assistant distributed the questionnaires to the respondents. The respondents were required to respond to them for a period not exceeding one hour.

3.5.3 Instruments of data collection

Structured and semi structured questionnaire were used to obtain information from the sample. (See Appendix II). The preference for a questionnaire was based on the fact that respondents would be able to complete them without help, anonymously and it would be cheaper and quicker than other methods while reaching out to larger sample (Bryman,2008; Cohen et al, 2007). The test retest technique was used to assess the data. The questionnaires were administered thrice to the same managers at an interval of four weeks.

3.5.4 Reliability test

To ensure reliability test was met, a pilot study was conducted in some of the youth-led enterprises in Hamisi Sub-County. The questionnaires were pretested two times in each ward by involving 10 respondents since the number required for pretest should not be too large. Mugenda and Mugenda (2003) suggest that the pre-test sample should be between 1% and 10% depending on the sample size. Here, the subjects involved in pre-testing the research instruments were encouraged to make comments and suggestions concerning the instruments, clarity of questions and relevance. A reliability test was carried out to establish whether the questionnaires met the desired outcomes. The parts that were tested for reliability were B to E of the questionnaire. The Cronbach's Alpha reliability coefficient was used in computing the reliability value with the help of SPSS. A reliability co-efficient of 0.60 was set as a cut-off point as proposed by Fraenkel & Wallen (2000). The results of the study showed the reliability values for the four variables to be 0.726. based on Fraenkel & Wallen (2000), the instruments were deemed reliable.

3.5.5 Validity

The questionnaire interview and observations guide were given to an expert to check whether the instrument reflects what it sought measure through content validation measurement. Suggestions and comments made were incorporated in the final document before reliability testing and final administration in the field.

3.6 Data analysis and presentation

Descriptive data analysis was used to summarize the characteristics of the respondents. The quantitative data was analyzed by use of both descriptive and inferential statistics. The descriptive statistics involved the use of frequency and percentages.

Multiple linear regression analysis was used to establish the relationship and magnitude between micro finance services (independent variable) and performance of micro enterprise (dependent variable) where SPSS statistical package was used for this purpose. This analysis was based on the Simeyo et al (2011) model which is specified as follows:

Micro enterprise performance = f (Loan, training, market linkage and savings mobilization)

Thus, the model $ROI = \alpha + \beta_1 LS + \beta_2 MT + \beta_3 ML + \beta_4 SM + \varepsilon$………………….Equation 1

Where, ROI – micro enterprise performance measured by growth in ROI

α – constant (autonomous performance)

LS – Access to credit

MT – Managerial training

ML – Market Linkage

SM – Savings mobilization

$B_{1,}$ β_2, β_3, β_4, -Coefficient of the independent variables and

ε – Error term where $\varepsilon \sim IID\ (0, \sigma_\varepsilon^2)$-indicates the assumption in the error term. It means that identically and distributed with zero mean and constant variance equal to σ_ε^2

The data was interpreted and presented in frequency tables and graphs. Responses from open ended questions were coded, interpreted and their frequencies determined through cross tabulation and differences from, between respondent and central tendencies of responses to each factor.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Socio Demographic Characteristics of Respondents

All the 36 questionnaires distributed were used for analysis. Out of these, 34 were found usable for the study and 2 questionnaires were discarded due to incompleteness. The majority (82.35%) of the respondents fell within the 18-35 years age bracket, 17.64% 36-45 year bracket. 44.12 of the respondents were male and 55.8% of the respondents were female chairpersons of youth-led enterprises.

Table 4.1: Descriptive statistics on education level

Education level	Frequency	Percent
None	3	9.00
Primary Education	1	2.94
Secondary Education	8	24.00
Tertiary Education	10	29.44
University Education	5	15.00
Post graduate and above	1	3.00
Others	6	18.00
Total	34	100.00

Source: Research Data, 2015

On education, the majority of the respondents (29.41%) had acquired tertiary education, followed by those who had completed secondary education (24%) and university level (15%). The least of the respondents (2.94%) completed primary education. This experience is important in determining the extent to which entrepreneurs have knowledge in microlending.

Table 4.2: Descriptive statistics on the kind of work done by the respondents.

Employment	Frequency	Percent
Farming	7	20.50
Trading	10	29.41
Artisan Work	3	9.09
Employed	7	20.50
Others	7	20.50
Total	34	100.00

Source: Research Data, 2015

The respondents were asked to state the kind of work they do. The results in the table 4.2 above indicate that most of the respondents are traders (29.41%), followed by farming, those who are employed and others (20.5) while those who do artisan work are the least (9.09%).

4.1.1 Effect of Micro-lending On Performance of Youth-Led Enterprises

The respondents were asked to indicate if the loan amount given to their groups for business venture they intended to have was sufficient. From the figure 4.1 below the results indicate that of the majority of the respondents (56%) was sufficient and (44%) was insufficient.

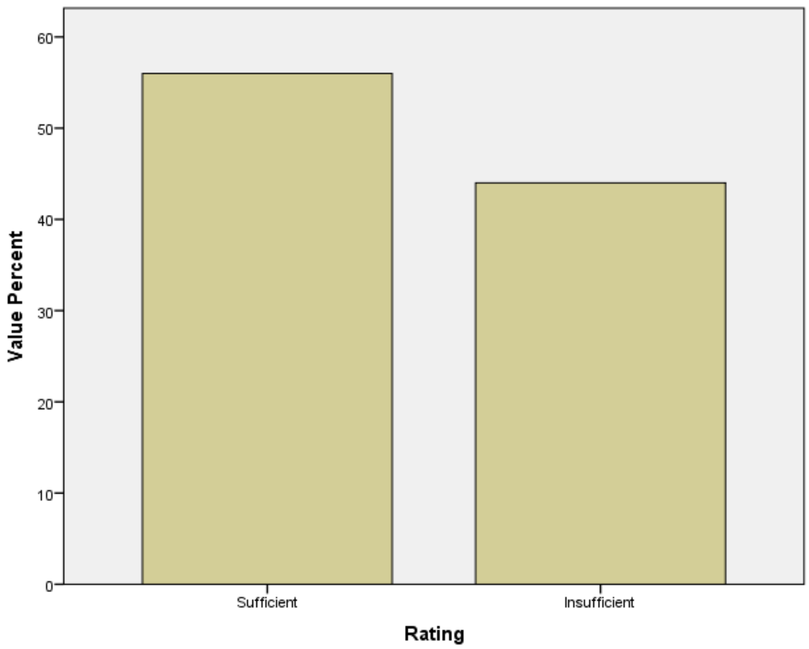


Figure 4.1: Is the loan given for the business venture sufficient.

Source: Research Data, 2015

On the effect of micro finance loan in regard to enterprises` profit, the respondents were asked to state the effect the micro finance loan had in regard to their enterprises` growth and success. The results from figure 4.3 below indicate that most of the enterprises had increased turnover, followed by increased net cash, increased savings then reduced net cash.

Table 4.3: Descriptive statistics on effects of micro finance on enterprises` profit.

Effect	Frequency	Percent
Increased turnover	14	41.17
Reduced net cash	1	3.00
Increased net cash	13	38.23
Increased savings	6	17.60
Total	34	100.00

Source; Research Data, 2015

4.1.2 Effect of Financial Training On Profit of Youth-Led Enterprises

Table 4.4: How many trainings have you attended in business skills that were facilitated by MFIs

No. of Trainings	Frequency	Percent
1	7	20.50
2	13	38.36
3	8	23.50
4	4	11.76
5 and above	2	5.88
Total	34	100.00

Source; Research Data, 2015

From table 4.4 above, on the number of trainings offered by the micro finance institutions on financial management and management skills, of the total respondents, 20.50% (7) had received one training, 38.36% (13) two trainings, 23.50% (8) 3 trainings, 11.76% (4) 4 trainings and 5.88% (2), 5 and above trainings.

On the rating of the trainings, it was revealed that of the respondents 85.29% (29) found the trainings relevant to their needs, while only 14.71% (5) found the trainings to be irrelevant to their needs. 82.34% (28) of the respondents indicated that the trainings met their expectations while only 17.66% (6) indicated that the training did not meet their expectations. The respondents were also asked to indicate if the business development skills training had any positive impact on their enterprise turnover. From figure 4.3 below the results indicate that the majority of the respondents (94.12%) business skills training had a positive impact on their enterprise turnover and only 5.88% did not have a positive impact on turnover. The findings suggest that most of the MFIs are offering training in business skills that are relevant to young entrepreneurs to respond to business challenges.

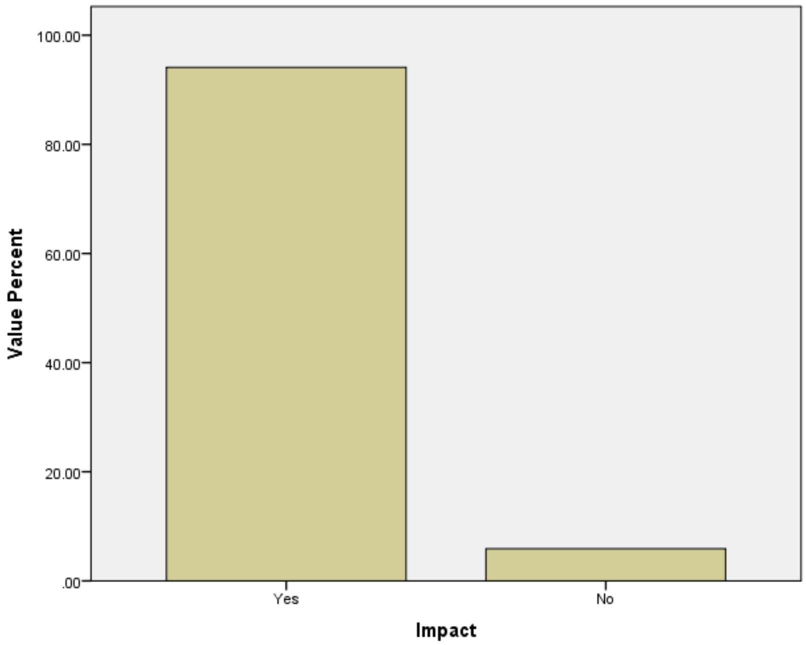


Figure 4.3: Does business development skill training have any positive impact on business turnover.

Source: Research Data, 2015

4.1.3 Effect of Market Linkage On Profit of Youth-Led Enterprises

From table 4.5 below on whether the market fairs and exhibitions organized by MFIs connected the youth-led enterprises to new markets, of the total respondents, 29% strongly agreed, 55.88% agreed, 3% disagreed, 6% strongly disagreed and 6% were undecided. They were also asked to indicate whether the market fairs and exhibitions met their expectations, of the total respondents, 14.70% strongly agreed, 65% agreed, 9% disagreed, 6% strongly disagreed and 6% were undecided.

Table 4.5: Participating in market fairs and exhibitions connected the enterprise to new customers.

Rating	Frequency	Percent
Strongly agree	10	29.00
Agree	19	55.88
Disagree	1	3.00
Disagree strongly	2	6.00
Undecided	2	6.00
Total	34	100.00

Source: Research Data, 2015

From table 4.6 on the rating market fairs and exhibitions meeting the expectations of the respondents, 14.70% indicated that they strongly agree, 65.00% agree, 9.00% disagree, 6.00% disagree strongly and 6.00% undecided.

Table 4.6: Market fairs and exhibitions met expectations

Rating	Frequency	Percent
Strongly agree	5	14.70
Agree	22	65.00
Disagree	3	9.00
Disagree strongly	0	0.00
Undecided	1	2.94
Total	34	100.00

Source: Research Data, 2015

The respondents were also asked to indicate if the market fairs and exhibitions had any positive impact on their enterprise' turnover, from figure 4.4 below the results indicate that the majority of the respondents, 85.29% market fairs and exhibitions had a positive impact on their enterprise' turnover and only 14.71% did not.

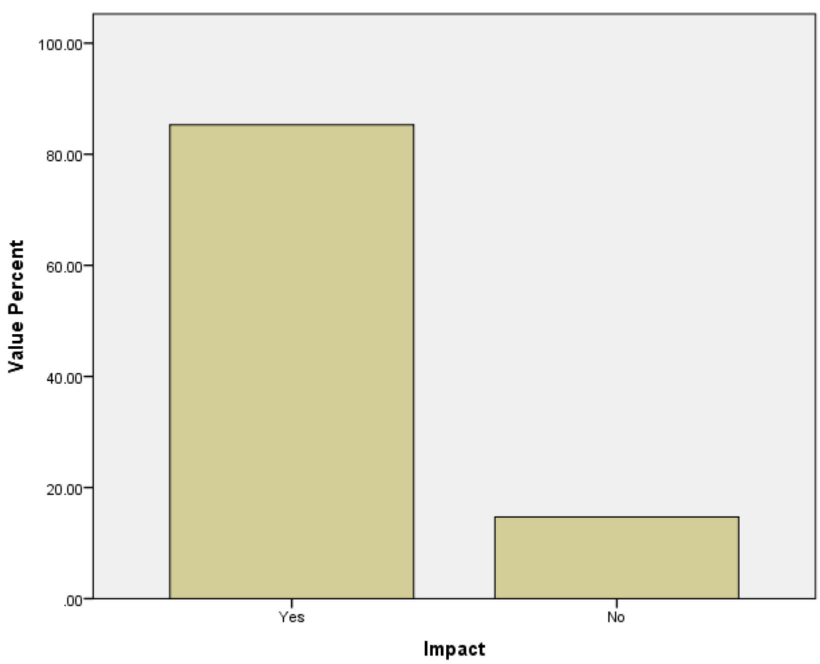


Figure 4.4: Does market fairs and exhibitions have impact on enterprises` turnover.

Source: Research Data, 2015

4.1.4 Effect of Savings Mobilization on profit On Youth-Led Enterprises

On the change of their enterprises` assets before and after they joined the microfinance, the respondents were asked to state the value of their enterprises` assets before and after they joined the micro finance institutions. The results from table 4.7 below indicate that there was a proportionate decrease in value of assets that are below kshs.150,000 and an increase in the value of assets that are above kshs.250,000. These findings suggest that savings is being encouraged by MFIs.

Table4.7: Value of enterprises` assets at the beginning and after benefit of micro finance services

Amount in Kshs.	**Before**		**After**	
.	Frequency	Percent	Frequency	Percent
50000-100000	10	29.41	8	23.53
101000-150000	16	47.06	12	35.29
151000-200000	4	11.76	4	11.76
201000-250000	2	5.88	3	8.82
251000-300000	2	5.88	4	11.76
301000-500000	0	0.00	0	0.00
Above 500000	0	0.00	3	8.82
Total	34	100.00	34	100.00

Source: Research Data, 2015

4.2 Effect of Micro Finance Services on Performance of Youth-Led Enterprises.

Determining whether the benefits of micro finance programs are sustainable and large enough to make a dent in the poverty of participants and society at large is important for guiding policy. The respondents were asked to indicate the purpose of the loan. Majority of the respondents indicated expansion of business (58.82%) and (38.24%) indicated for start while the rest were in the category of others. The high percentage for business expansion only show that business financial performance is not sound that SMEs are not able to plough back profits to expand their business.

Multiple regression analysis was used to establish the effect of access to credit, financial training, market linkage and savings mobilization on performance of youth-led enterprises. The analysis also shows the relationship between the variable. The coefficients of regression results are:

Table: 4.8 regression analysis results

Variable	Coefficient	Std Error	t-statistics	Probability
LS (Access to credit)	0.345	0.053	6.509	0.002
TM (Training Management)	0.265	0.098	2.704	0.004
ML (Market Linkage)	0.211	0.109	1.936	0.003
SM (Savings Mobilization)	0.231	0.088	2.625	0.000
C (Constant)	0.489	0.402	1.216	0.211

Method: Least Squares. Dependent variable: ROI. Source: Field Survey, (2015)

Presented in Table 4.8 and when these beta coefficients are substituted in the equation, the model becomes:

$$ROI=0.489+0.345LS+0.265TM+0.211ML+0.231SM+\varepsilon \text{ ....\{Equation 2\}}$$

This means that even without the four independent variables (access to credit, savings mobilization, training and market linkage), the performance of youth-led enterprise is expected to stand at 0.489 (Y-intercept). The coefficients of access to loan, training, market linkage and savings mobilization are 0.345, 0.265, 0.211 and 0.231 respectively. They are all positive, meaning as the magnitudes of the independent variables (access to credit, training, market linkage and savings mobilization) increases, the magnitude of the dependent variable (performance) also increases.

Table 2 also shows the beta values converted into the same scale to enable comparison. Access to credit having the largest beta of 0.345 has the largest effect on performance. The second most important variable was training with a beta of 0.265; the third variable is savings mobilization with a beta of 0.231. The least important predictor of these four variables is market linkage with a beta of 0.211. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Financial Performance of Youth-Led Enterprises) that is explained by all the four independent variables (micro lending, savings mobilization, market linkage and training).

4.3 Discussion of Findings

First, credit alone cannot save the youths and take them out of poverty. As Parker and Pearce (2001) have noted, it is only one out of the many elements of a menu of possible interventions to generate income and possibly alleviate poverty. In case of Africa in particular, (Kiiru, 2007) asserts that there are more important constraints that face the clients of microfinance such as individual product prices, land tenure, technology and market access. These problems place a lot of responsibility on government to create the enabling environment as well as the framework conducive not only for rural finance but also in market development. (Sachs, 2009), for example, claims that micro finance can play a huge role in alleviating poverty if it helps to find ways through the market to get new opportunities to earn income by the investments in both farm and nonfarm activities. This view is consistent with the findings that market linkage increased the profit of the youth-led enterprises.

The poor mainly go for loans with different motives, some maybe looking for immediate funds to smooth consumption while other households maybe interested in operating small scale enterprises. On the practical side of things, it has been easy for rural households to acquire capital for micro enterprises through micro finance. However one major challenge that still remains unsolved is the issue of effective demand for the products. Without the demand for goods and services, then the potential for youth-led enterprises to maximize profit is highly compromised.

The loan sizes accessed by poorer households were a big issue in Coleman's (2006) study. (Coleman, 2006) argued that the loan sizes were too small to make any significant differences in household welfare. The size of loans even prompted some women to leave the microfinance programs arguing that the loans were too small for any meaningful income generating activity (Coleman, 2006). Coleman argues that one reason why wealthier borrowers may have experienced larger impacts was because they could commandeer larger loans. The argument is in consistent with the findings that savings mobilization has a positive impact on the value of the enterprises` assets of youth-led enterprises.

The results of this study further concur with Graham et al (2001) study in Uganda which concluded that chunks of micro credit helped smoothen financial requirements by the women and did not result into any meaningful investment or savings results. In contrast. GAP (2003) In Cholteca and Tegucigalpa in Honduras found a positive relationship between micro financing and investment as well as micro financing and savings. Savings and Investments increased. AFC (2008) in India also found similar results as CGAP.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS AND FINDINGS

5.1 Summary

Multiple Linear regression analysis was used to establish the relationship and magnitude between Micro finance services (independent variable) and performance of youth-led enterprises (dependent variable). The data was interpreted in frequency and percentage tables and graphs. The study results indicated an absence of collinearity between predictors. The results also showed a positive relationship between the independent variable (access to credit, training, market linkage and savings mobilization) and the dependent variable (performance).

5.2 Conclusion

The findings indicated that the access to credit, savings mobilization, training in micro enterprise management and market linkage was on average satisfactory to the micro entrepreneurs. The study concluded that there existed a relationship between extent of provision of micro finance services and performance of youth-led enterprises and that micro finance significantly affected performance of micro enterprises. It therefore implies that improvement in the provision levels of micro finance services will result in increased effects on performance of youth-led enterprises. Training in micro enterprise management as a component of microfinance help clients in business management and minimizing transactions related risks.

5.3 Recommendations

The study recommends that micro finance service providers and policy development partners could consider including a micro insurance scheme in the microfinance package. Also, extension of the current loan grace period of one month would give the entrepreneurs adequate time to invest the loan and use the returns from the investment for loan repayment. The government and development partners could consider channeling more funds for micro financing programs to bring on board many unemployed people that are currently out of reach as the programs as this will help spur economic development and alleviate unemployment.

The government to put in place measures to link SMEs to larger firms to increase their market region and encourage globalization. The government through the Ministry Of Education to incorporate Entrepreneurship management skills in Secondary School Curriculum. The government should put in place policies to strengthen cooperative societies and educate the Youth about their importance.

5.4 Limitations of the Study

The study faces challenges of time resources particularly where the SMEs managers delayed in giving financial reports. To mitigate this, the researcher made follow quite often to these Youth-Led Enterprises.

The study was limited to the microfinance institutions only where as other financial institutions also play a role in their financial performance. This makes the results of the study generalizable. Obtaining data from the Youth-Led Enterprises was a great challenge. Most of them did not keep audited records. These SMEs that had information available sometimes had insufficient data for this study. Future researchers are advised to consider using both primary and secondary data sources.

5.5 Suggestion for further studies

The current study was a cross sectional survey based on a small sample size taken from only Hamisi Sub County and therefore the findings of the study cannot be generalized to all the 47 Counties in Kenya. The study recommends that further research could be conducted on Youth-Led Enterprises countrywide to investigate on the effect of microfinance services on performance of Youth-Led Enterprises to find out whether there are commonalities or unique factors. The concentration is on SMEs, it is important to carry out similar study among large enterprises in order to find out the effect microfinance services on performance of these firms. Future research should also focus on the different aspects of micro financing on performance of SMEs. For the small micro enterprises sector to grow, small businesses need to link with the rest of the economy. Most of these businesses are so small that creating a link seems almost impossible. Further research should be done in this area to establish the best way of linking small and micro businesses with large companies in the economy.

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Appendix I

Budget

	Budget item	Amount (ksh)	Sub-total (ksh)	Total (kshs)
A	Direct expenses -printing -binding -photocopying	 1200 600 1200		
	Total direct expenses		3000	
B	Travel			
	Domestic travel	10000		
	Respondents (Restaurant Meals)	500		
	Total travel expenses		15000	18000
	10% overhead			1800
	TOTAL EXPENSES			19800

Appendix II

QUESTIONNAIRE

PART A: Demographic Data

1. Location of the enterprise.
   Sub location…………………………………………

   Location……………………………………………………………………….
2. How many members does your group have?

No of members	Tick
10	
11	
12	
13	
Above 14	

3. What is your gender (Tick)
   M…………
   F……………
4. Your age is between

Years	Tick
18-35	
36-45	
46-60	
Above 60	

5. Where do you work?

Employment	Tick
Farming	
Trading	
Artisan work	
Employed	
Others	

6. Age of your group

Years	Tick
1-2	
3-4	
Above 4	

7. Highest level of formal education by the respondent

Level	Tick
None	
Primary education	
Secondary education	
Tertiary/College	
University degree	
Post graduate and above	
Others (specify)	

8. What Kind of enterprise do you operate?

Enterprise	Tick
Agricultural	
Business	
Other (specify)	

9. Has your enterprise been growing in scale (Turnover wise)?

Yes ☐

No ☐

10. What is your enterprise turnover/gross in Kshs?

Amount (kshs)	Tick
10000-20000	
30000-40000	
50000-60000	
Above 60000	

11. What is your enterprise net in Kshs?

Amount (Kshs)	Tick
10000-20000	
30000-40000	
50000-60000	
Above 60000	

PART B: Micro lending

1. How much credit overall have you accessed since you started your enterprise?

Amount (Kshs)	Tick
50000-60000	
70000-80000	
90000-100000	
110000-120000	
130000-140000	
150000-160000	
170000-180000	
190000-200000	
Above 200000	

2. How long did it take to process the loan?

Period	Tick
0-3 months	
4-6 months	
Over 6 months	

3. What was the loan for?

Purpose	Tick
Start up	
Expansion of business	
Other (please specify)	

4. How would you rate the loan amount given for the business venture you were intending to have?

Rating	Tick
Excessive	
Sufficient	
Insufficient	

5. What comment can you give on the changes of the microfinance institution loan?

Comment	Tick
Reduce interest rate	
Increase grace period	
Increase payment period	
Reduce loan processing period	

6. What effect did the microfinance loan have in regard to your enterprise`s growth and success?

Effect	Tick
Increased turnover	
Reduced net cash	
Increased net cash	
Increased savings	

PART C: Market Linkage

1. How many markets is your enterprise linked to?

No. of markets	Tick
None	
1-5	
6-10	
11-15	
Above 15	

2. What is your area of coverage of your operations?

Area	Tick
Within the location	
Within the Constituency	
Within the County	
Within the Country	
Internationally	

3. How many of the Markets your enterprise is linked to, were through microfinance institutions?

No. of markets	Tick
1	
2	
3	
4	
5	
Above 5	
None	

4. How would you rate the microfinance institution facilitated market fair/exhibitions As regards the following aspects on a scale of 1-5?

Criteria	Strongly agree	Agree	Disagree	Disagree strongly	Undecided
No. of market fairs and exhibitions organized by MFIs are sufficient					
Participating in market fairs and exhibitions connected the enterprise to new customers					
The market fairs and exhibitions met my expectations					
The frequency of the market fair and exhibitions is sufficient.					

5. Did the market fairs/exhibitions have any positive impact on your enterprise turnover?

Yes ☐

No ☐

PART D: Training in business

1. How many trainings have you attended in business/entrepreneurship skills that were facilitated by MFIs?

No. of trainings	Tick
1	
2	
3	
4	
5 and above	

2. How do you rate the MFIs facilitated business development skills training as regards to the following aspects?

Criteria	Strongly agree	Agree	Disagree	Disagree strongly	Undecided
No. of business trainings attended are sufficient					
The business trainings were relevant to my needs.					
The length of the training was sufficient.					
The frequency of the trainings was sufficient					
Content was well organized and easy to comprehend.					
The training met my expectations.					

3. Did the business development skills training have any positive impact on your enterprise turnover?

Yes ☐

No ☐

PART E: Savings Mobilization

1. How much have you saved since your enterprise started operating?

Amount (Kshs)	Tick
10000-20000	
30000-40000	
50000-60000	
70000-80000	
90000-100000	
Over 100000	

2. How many additional employees did you employ since funding by MFI?

NO. of additional employees	Tick
1	
2	
3	
4	
5	
Above 5	

3. What was the value of your enterprise assets at the beginning (in Kshs)?

Amount (Ksh)	Tick
50000-100000	
101000-150000	
151000-200000	
201000-250000	
251000-300000	
301000-500000	
Above 500000	

4. What is the current value of your enterprise assets?

Amount (Kshs)	Tick
50000-100000	
101000-150000	
151000-200000	
201000-250000	
251000-300000	
301000-500000	
Above 500000	

5. For how long had you operated a business enterprise?

Period (years)	Tick
1	
2	
3	
4	
5	
Above 5	

6. What would you say is the overall effect of MFIs on your enterprise?

Positive ☐

Negative ☐

No effect ☐