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Effects of micro- finance institutions' services on sustainability of small enterprises: A survey of small enterprises in Huruma Estate, Eldoret Town

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ABSTRACT: *This study examined the effects of microfinance institutions on the sustainability of small enterprises in Eldoret Town. The purpose of the study was to determine the contribution of micro-finance institutions on the sustainability of small enterprises in Huruma Estate, Eldoret Town. Specific objectives of the study were; to establish the effects of microfinance lending conditions on the sustainability of small enterprises, to determine the effects of microfinance training on the sustainability of Small enterprises in Eldoret town and to investigate the contribution of microfinance project appraisal on the sustainability of small enterprises. The theoretical framework was based on Signaling theory and Agency theory. Of the (129) respondents one hundred and eleven (111) respondents were able to successfully fill and return the questionnaires issued. The population consisted of over 400 respondents from Huruma Estate. Stratified and simple random technique was used to select a sample of one hundred and twenty nine (129) respondents. Primary data was collected using structured questionnaires. Data was analyzed using descriptive statistics and a regression analysis was done on the variables. Findings were presented in frequency tables and percentages. Multiple regressions were done to ascertain the relationship between the independent variables and dependent variable. Findings of the study showed that; there is an inverse relationship between sustainability of Small Enterprises and Microfinance Institutions services'. When lending conditions are in favor of the small business owners, sustainability improves by 0.376 (37.6percent). Similarly, increase in frequency of training of small business owners will result to an improvement in sustainability of small businesses by 0.767 (76.7percent). It is notable that, lending and training were the only significant variables in the multiple regression model as shown by their P values (0.000) respectively being less than 0.05 level of significance, P< 0.05). Project appraisal had a P value greater than 0.05 level of significance, P> 0.05. Results on hypothesis testing also revealed that; there is a significant relationship between lending conditions, training services and sustainability since their P values (0.000) respectively were less than 0.05 (P<0.05), where as there is no significant relationship between project appraisal and sustainability since the P value was (0.338) and was greater than 0.05, P> 0.05. The study concluded that, lending conditions were impeding entrepreneurs from accessing credit from the microfinance institutions. Training by microfinance institutions on the other hand were not adequate. The study recommended that, microfinance institutions should not impose conditions that are unlikely to be fulfilled by borrowers wishing to access credit. This way, they will make more profits by lending to more people and entrepreneurs will as well make investments. Microfinance institutions should rather improve on their credit recovery strategies.*

KEY WORDS: *lending conditions, training, project appraisal, profitability,*

I. BACKGROUND INFORMATION

Microfinance traces its origins to 1976, when Dr. Mohammed Yunus started a small microfinance scheme as an experiment in the rural areas of Bangladesh. The experiment evolved from its initial success into the Grameen Bank, the world's first microfinance institution, which popularized group lending, in which loans were issued to individual members of small, homogeneous groups, who collectively guarantee loans issued to their members. All members were barred from further access to credit in the case of default by one group member, providing strong incentives for the group to ensure repayment by each individual borrower. This microfinance model eventually spread around the world, especially in third world countries (Yunus, 1976). Developing economies have been providing credit to the poor through microfinance institutions' schemes.

The experience of several Asian, African as well as Latin American countries could be a typical example for this (UNCDP, 2003). In Africa particularly in Ethiopia, several microfinance institutions (MFIs) have been established and have been operating towards resolving the credit access problem of the poor particularly to those participating in small scale business. Within any society, financial services provide a means for people and businesses to obtain credit and manage available assets on a continuous basis. Access to financial services enables existing businesses to grow and provides starting capital for starter businesses. Microfinance Institutions provide these services within communities that have limited resources and few avenues for development economically. People within these communities can use micro loans to develop small businesses based on their existing talents and skill sets. Access to credit plays a pivotal role in economic growth. Banks and lending institutions provide the services that allow people to save and invest assets and resources which further supports and strengthen economic activity. Within underdeveloped communities, the role of microfinance institutions provides the credit access and financial services needed to develop income earning businesses. Microfinance Institutions provide financial services to the Small Enterprises mainly in the form of micro credit with the exception of cooperative based Microfinance institutions which are predominantly savings based. The main microfinance institutions can be categorized as Non-Governmental Organizations (NGOs), Savings and Credit Co-operative (SACCOs), banks and Community Based Organizations (CBOs). Most Microfinance institutions with an exception of tiny rural based Savings and Credit Co-operatives are reluctant to extend their services to the rural areas due to poor infrastructure, high risk and high cost of operation (Kibas, 2004).

Although microfinance grew as a means of providing uncollaterized start-up loans to groups or individuals living in poverty, today, it reflects a range of financial services including debt and equity financing, insurance, savings and retirement plans. A report by Financial Sector Deepening FSD (2009) observes that Kenya has a significantly diversified financial structure, including insurance and capital market institutions. Kenya, unlike many other African countries, has many of the elements needed for the development of a vibrant financial market. The financial system in Kenya is more developed than in most countries in the Sub-Saharan Africa region, and compares favorably to other emerging nations of similar development levels comprising commercial banks, partly or wholly owned by foreign financial institutions, deposit-taking micro-finance institutions regulated by the Central Bank of Kenya (CBK) and established Micro-finance Institutions as well as approximately 450 additional institutions do not take deposits but engage in lending activities (Kinyanjui, 1996).

In Kenya, the SME sector is the biggest employer outside agriculture. According to computations from economic surveys, for example the SME's share of total non-agricultural employment in 1999 was 68.2 percent up from 48.9 percent in 1993 (Republic of Kenya, 2009*)*. This phenomenal growth in the SME sector has increased policy focus on the development of this sector as an engine of economic growth, employment creation and poverty reduction. This is in line with the government's objective of making the private sector the key source of future growth (Vision, 2030). Small Enterprises have become important players in the economy but at the same time they continue to face constraints that limit their development. Lack of access to financial services is one of the main constraints and a number of factors have been identified to explain this problem. These include the segmented and incomplete nature of financial markets which increase transaction costs associated with financial services. Most financial institutions consider Small Enterprises uncredit worthy, thus denying them credit. This lack of access to financial resources has seen to the slow growth and sustainability of Small Enterprises. The Small Enterprise Sector contributed over 50percent of new jobs created in 2005, but despite their significance, Small Enterprises are faced with the threat of failure with past statistics indicating that three out of five fail within the first few months (Dondo, 2000). Those who promote microfinance generally believe that such access to financial services will help poor people out of poverty. Conventionally, banks have not provided financial services, such as savings accounts or loans to clients with little or no cash income. Banks incur substantial costs to manage a client account, regardless of how small the sums of money involved (Davis *et al*., 1993).

The place of Small Enterprises (SEs) in the growth and development of the society has been acknowledged by numerous researchers all over the world, (Kibas, 2001, Kinyanjui, 2001). Many successful experiences around the world have led to the conclusion that one of the best ways to help a country move towards industrialization and to push the economy forward is to encourage local economic development through small business enterprise development (Kibas, 2004). The success stories of many industrially advanced nations, which acknowledged the position of SEs in their economic development process, have persuaded the developing countries such as Kenya to acknowledge and support the emergence and sustenance of small business enterprises in their national development goals. The small enterprise sector in Kenya employs around 2.3 million people and generates around 14percent of the country's Gross Domestic Product (GDP) (Nasirembe, 2007).

II. STATEMENT OF THE PROBLEM

Sustainability is the process of increasing the capacity of institutions or groups to make choices and to transform those choices into desired actions and outcomes (Montgomery, 2005). Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets. In order to ensure financial viability, sustainability needs to be central in the planning and day-to-day operation of the SME. Availability of credit remains a daunting challenge with most businesses expressing dissatisfaction with financial institutions in making credit available to do business. Lack of information on where to access professional and financial services is a major impediment for growth. Despite availability of products offered by financial and microfinance institutions, the targeted recipients are not informed on where to get them and how to meet requirements. Sustainability can be considered as an important dimension as it is a condition for achieving sustainability of other project components (Salman, 2008). It is achieved if the revenues of the SME are greater than the expenditures. However, sustainability is an output of the sustainability of other components at the same time. Sustainability is a key factor for SME growth, as it is a condition for achieving sustainability of other components and the survival of the SME (Todd, 2006).

Most SEs in Kenya are faced with a lot of challenges starting and maintaining businesses in a highly competitive environment. This study focused on the contribution of Microfinance Institutions on the sustainability of Small Enterprises. Limited empirical studies however exists that assess the effects of micro financing to the development and growth of Small Enterprises in Kenya especially in Huruma Estate, Eldoret Town. It is against this background that this study seeks to establish the effects of micro finance institutions on the sustainability of Small Enterprises in Huruma Estate, Eldoret Town.

Objectives of the Study

The objectives of this study were;

- To establish the effects of lending conditions on the sustainability of Small Enterprises
- To determine the effects of training on the sustainability of Small Enterprises
- To investigate the effects of project appraisal on the sustainability of Small Enterprises

Hypotheses

The study tested the following hypotheses;

H_{O1}: There is no significant relationship between lending conditions and sustainability of Small Enterprises.
H_{O2}: There is no significant relationship between training and sustainability of Small Enterprises.
H_{O3}: There is no significant relationship between project appraisal and sustainability of Small Enterprises.

III. LITERATURE REVIEW

Review of theory

Signalling Theory : Signaling theory was introduced in 1974 by Michael Spence as a notion of signaling in economic thinking. According to him, when information is imperfect, individuals who possess strong qualities will send signals to distinguish themselves from others. It is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. Accordingly, signaling theory holds a prominent position in a variety of management literatures including strategic management, entrepreneurship, and human resource management.

With high spate of financial problems contributing to the high rate of failures in Small Enterprises, Whonderr (2008) argues that while financial management is a critical element of the management of a business as a whole. Within this function, the management of its assets is perhaps the most important. In the long term, the purchase of assets directs the course that the business will take during the life of these assets, but the business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital. The poor financial management of owner-managers is the main cause underlying the problems in SE financial management. Despite the need to manage every aspect of their small enterprises with very little internal and external support, it is often the case that owner-managers only have experience or training in some functional areas. A well run business enterprise should be unconscious of its finances. It must be possible to undertake production, marketing and distribution without repeatedly causing or being hindered by financial pressures and strains. It does not mean, however, that financial management can be ignored by a small enterprise owner-manager. In prosperous small enterprises, the owner-managers themselves have a firm grasp of the principles of financial management and are actively involved in applying them to their own situation.

Signalling theory is considered to be more insightful for some aspects of Small Enterprise financial management than others. The emerging evidence on the relevance of signaling theory to small enterprise financial management is mixed. There has been no substantial and reliable empirical evidence that signaling theory accurately represent particular situations in SME financial management or that it adds insights that are not provided by modern theory. While the use of signaling theory has gained momentum in recent years, its central tenets have become blurred as it has been applied to organizational concerns. Signalling theory states that corporate financial decisions are signals that are sent by managers to investors so as to shake them up. Signalling Theory rests on the transfer and interpretation at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise.

Connelly *et al*., (2011) writes that of the ability of Small Enterprises to signal their value to potential investors, only the signal of the disclosure of an earning's forecast were found to be positively and significantly related to enterprise value amongst percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue, and the level of underpricing of an issue. Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to signal that information, and the other party, the receiver, must choose how to interpret the signal. Accordingly, signaling theory holds a prominent position in a variety of management literatures including strategic management, entrepreneurship and human resource management. The flow of funds between small enterprises and the microfinance institutions are therefore dependent on the flow of information between them, such as to enable the small enterprises to attain sustainability.

IV. AGENCY THEORY

The concept of agency theory originated from the work of Adolf Augustus Berle and Gardiner Coit Means, two American economists who began discussing corporate governance in terms of an "agent" and a "principal" as early as 1932. Berle and Means explored the concepts of agency and their applications towards the development of large corporations and they saw how the interests of the directors and managers of a given firm differed from those of the owner. They used the concepts of agency and principal to explain the origins of those conflicts. It addresses the relationship of agency, one of the oldest forms of social interaction. In an organizational context, the agency theory explains how best to organize relationships in which one party (the principal) determines the work, which the other party (the agent) undertakes. Eisenhardt (1985) presents the theory in two cases; the first one is characterized by complete information, when the behavior of the agent is observed and the actions and motivations are transparent. The solution to this scenario is a behavior based contract purchasing of services. However, such a scenario is less frequent due to the information asymmetry problem. The second case is characterized by incomplete information. The principal has limited information regarding the level of effort and the behavior of the agent.

Agency theory is the branch of financial economics that looks at conflicts of interest between people with different interests in the same asset. It is the analysis of principal-agent relationships in which one person, an agent, acts on behalf of another person, a principal (Connelly, *et* al., 2011). Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members and employees. The agency theory postulates that the day to day running of a business is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of two-sided transactions which holds that any financial transactions involve two parties, both acting in their own best interests but with different expectations. Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work or perform a task the principal is unable or unwilling to do. Agency Theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms Agency Theory to inevitable inherent conflicts. Thus if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet agents are supposed to act in the sole interest of their principals. The theory provides useful knowledge into many matters in SME financial management and shows considerable avenues as to how SME financial management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs (Abrahamson *et al*., 1994).One criticism of agency theory is that it relies on an assumption of self-interested agents who seek to maximize personal economic wealth. The challenge is therefore to get agents to either set aside their self-interest, or work in a way in which they may maximize their personal wealth while still maximizing the wealth of the principal.

Thus a standard of agency duty and action is necessary, not because agents are universally selfish, but because the potential for differences between the principal's and agent's interests exists (Abrahamson *et al*., 1994). Opponents to agency theory often criticize it for being too general and many also claim that it is pseudo-scientific which in the context of personal interactions, isn't usually a good thing.

V. EMPIRICAL REVIEW

Lending Conditions on Sustainability of Small Business Enterprises : The development and sustainability of the small enterprises in the economy is of paramount importance if the dream of wealth creation is to be realized at all. The main sources of credit to small enterprises are relatives and friends, formal banks, Microfinance Institutions and personal savings. There has been a lot of emphasis on provision of financial services to small enterprises in form of credit and despite catalytic role expected to be played by Microfinance Institutions in facilitating economic growth through small enterprises, the enterprises have continually faced persistent barriers in accessing funds for investments. Adopting sustainability practices can make smaller entities more competitive. Strategic integration of sustainability assists small enterprises to better anticipate and respond to long term trends and the effect of resource use, while addressing stakeholder expectations. Small enterprises that embrace sustainability in business have a better understanding of the impact of systemic risk and resource constraints on business operations. Identifying and addressing environmental and social concerns related to products and services can be a differentiator in certain markets, while opportunities for business innovation can be realized when environmental and social challenges are seen as opportunities to meet society's needs (Rosengard *et al*., 2000).

According to World Bank (2010), there are some 900 micro credit institutions in 101 countries that offer loans to the world's poor and these are some of the oldest, largest and most stable of such organizations. In a sample consisting of 206 of this micro credit organization, it was reported that they had issued 145 million loans with a collective loan portfolio of over U.S$7 billion. Micro finance is one of the most recent and innovative strategies of addressing the global poverty. Micro enterprise creation and development and micro finance are not the classical hand-out mentality that has dominated most development approaches in the past. According to Ondiege (1996), research reports also indicate that a majority of the Small Enterprises generally have some common characteristics, for example, observes that most Small Enterprises in Kenya are labour intensive, use relatively cheap tools and equipment, use second-hand and locally fabricated machinery, operate in small scale and have a low capital start-off.

Otunga *et al*., (2001) concurs with this, asserting that unlike capital-intensive large-scale enterprises, the Small Enterprises are labour intensive and this makes them provide more jobs, each day they are created. Limited access to credit is commonly identified as a key constraint to Small Enterprise growth, but little evidence exists of the direct and indirect effect of loans on small firms in a given market. Small businesses are often thought to be an important source of employment, innovation, and economic growth. In many developing countries, small and medium enterprises make up a large share of registered businesses, but a much smaller share of GDP. Data from several countries suggest that few small enterprises grow to become larger businesses. One reason could be that unlike larger businesses, small enterprises have limited access to credit, preventing them from making larger investments to improve their operations, upgrade to new technologies, or expand.

Most small enterprise financing needs exceed the small loans that microfinance institutions provide. Yet, larger commercial banks often find it too expensive to lend to small enterprises because the cost of assessing whether an SE is creditworthy is highly relative to the return banks could earn by lending to them. Many banks also perceive small enterprises as being too risky and more likely to default on loans. Credit scoring has been used extensively in developed countries to reduce the cost and time required to process loan applications and to assess the riskiness of loan applicants in order to make small business and consumer lending profitable for banks (Dondo, 1999). In Kenya, the economic update indicates that although financial inclusion is increasing and Kenyan banks are ahead of their counterparts in terms of the share of lending to small enterprises in their portfolios, the high cost of credit is constraining the growth of Small Enterprises. This corroborates data by the World Economic Forum (WEF) which shows that Kenyan businesses cite access to financing as the second most problematic factor in doing business.

Training on Sustainability of Small Business Enterprises : Small business enterprise transformation is all about seeking to bring about improvement in the living condition of the farmer, the artisan, the tenant and the landless within the simple and rustic economies of the country sides and urban slums. The basis for employment generation and entrepreneurship development in the country, therefore, is to enhance the improvement of the living condition of the people (Musinga, 1994). Small Enterprises play a considerably important role in national development, especially in developing countries by increasing employment opportunities, encouraging local and indigenous enterprises, thus distributing resources nationally and reducing economic gaps between rural and urban areas, and improving household incomes and thus alleviating poverty. Although they are significant in national development, Small Enterprises experiences a number of barriers, principal of which is access to credit. The role of MFIs in proving credit interventions to initiate Small Enterprises growth has been reported from the literature reviewed. However, limited empirical studies exist on the effect of the MFIs in Small Enterprises sustainability, especially in Eldoret area. The literature on microfinance so far has employed agency theory to explain the classic group lending processes, prospect theory to explain the risk preferences of entrepreneurs and social capital theories to explain networks on which entrepreneurs rely. Likewise, researchers have drawn on institutional theory to explain the emergence and evolution of different micro financing instruments.

According to http://www.microfinancegateway.org (2010), some MFIs provide non-financial products such as business development or health services. Commercial and government owned banks that offer micro finance services are frequently referred to as MFIs, even though only a portion of their assets may be committed to financial services to the poor. Most MFIs have a social mission that they see as more basic than their financial objective, or at least co-equal with it. There is a great deal of truth in the adage that institutions manage what they measure. Social performance measurement helps MFIs and their stakeholders focus on their social goals and judge how well they are meeting them. Social indicators are often less straightforward to measure, and less commonly used than financial indicators that have been developed over centuries. The increased use of social measures reflects an awareness that good financial performance by an MFI does not automatically guarantee client interests are being appropriately advanced. MFIs render advisory services to Small Enterprises to aid them act upon the advice thus enable them grow in business. They are taught how to introduce simple accounting and record keeping in their operations because most Small Enterprises do not keep accurate record of business which often leads to business failure. Financial and non-financial services are complementary, increasing the chances that a client will achieve the outcomes that financial services are designed to provide and therefore making it more likely that the client will repay a loan, make savings deposits, pay an insurance premium, and therefore contribute to the financial performance of an MFI.

Project Appraisal on the Sustainability of Small Business Enterprises : Microfinance Institutions exist in various legal forms; including non-governmental organizations, credit link NBFIs, and commercial banks. Their success has shown that poor people are ready and valuable clients of specially designed financial services and that serving this niche can financially viable. Microfinance Institutions bring valuable services to vulnerable people, enabling them create, own, and accumulate wealth and assets. The purpose of project appraisal is to establish whether a project is worthwhile in the light of its costs in terms of resource commitments and the projects expected benefits. Appraisal is an ex-ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. The technical aspect of appraisal is concerned with issues related to physical scale, layout, location of facilities, technology used, cost estimates and their relation to engineering or other data on which they are based, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of a project. Financial appraisal (investment appraisal) on the other hand is concerned with questions such as the adequacy of funds, the financial viability of the project, the borrower's ability to service debt, procedures for recovering investment and operating costs (Davis *et al*., 1993).

VI. CRITICAL REVIEW

Concept of Microfinance Institutions : Microfinance products and services are important elements for ensuring Small Enterprises sustainability. Small Enterprises are bedeviled with a number of challenges including difficulty in accessing startup capital, stringent credit conditionality, high interest rates on credit, and inadequate government support for Small Enterprises, thus becoming barrier to development and sustainability of Small Enterprises. The difficulty of accessing startup capital is a major setback to Small Enterprises operations. Access to finance improves SE performance. Accessible finance facilitates market entry, growth, innovation and risk reduction. Firms with greater access to capital are more able to exploit growth and investment opportunities. A substantial portion of the SE sector may not have the security required for conventional collateral based bank lending, nor high enough returns to attract formal venture capitalists and other risk investors. Markets may be characterized by deficient information, limiting the effectiveness of financial statement based lending and credit scoring. This has led to claims of an SE financial gap, particularly in emerging economies. A scenario witnessed in Kenya, particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors', which promised that they could make it to financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits (Jean-Luc, 2006 & Rosengard, *et al*., 2000). Micro financial services comprise of micro credit, savings, micro leasing, micro insurance and other forms of financial services. The microfinance market consists of the poor who are essentially involved in some form of economic activities. Microfinance Institutions, in their roles give loans to small businesses on request which aid the Small Enterprises to perform better compared to when there is an inadequacy of capital. Microfinance Institutions allow Small Enterprises to have savings account deposit to withdraw from accounts more than they have if they wish. This excess allows or enables the capital at hand to increase. Microfinance Institutions render advisory services as well to Small Enterprise owners which aids them to act upon the advice rendered to aid them grow in business. They are taught how to introduce simple accounting and record keeping in their operations because most business concerns do not keep accurate record of business which often leads to business failure. Microfinance Institutions provide a reliable source of financial support and assistance compared to other sources of financing. Sources operating outside the Microfinance industry typically form informal relationships with borrowers and have no real legal or substantial ties with their customers. As a result, loan terms tend to carry high costs with no guarantee that lenders remain in one place for any length (Davis *et al*., 1993).

Small and medium sized entities are of the idea that sustainability is only relevant to large companies and that measuring and managing sustainability amounts to a costly and unnecessary burden. Service providers, e.g. accountants to the business will argue that it is a hard sell getting small enterprises to embrace sustainability. However, small enterprises that integrate sustainability into their core business strategy can benefit from lower costs, reduced risk, and new opportunities. Small enterprises crucially account for over 95 percent of all businesses and for the majority of private sector gross domestic product, wealth and employment creation, and social and environmental impacts. Small enterprises are an integral part of the supply chain where there is a growing demand for sustainability management both from customers and suppliers, especially for those small enterprises seeking to secure contracts with governments or larger companies. Small enterprises also need to ensure they have access to the resources they need to be able to continue offering their products and services in the future. The initial cost of integrating sustainability into the core business strategy, and reporting on it, can be more than offset by cost savings, reduced risk, positive brand association, and the ability to meet consumer, investor, and supplier demand for environmentally conscientious products and services. In this way, the initial cost is more an investment (World Bank, 2010).

VII. CONCEPT OF GROUP LENDING

The main attribute of the group lending model of microfinance is the use of social rather than material collateral. Loans are made to small groups or cooperatives and peer pressure is used for ensuring that repayments are made. Women and youth are the primary beneficiaries of microfinance programmes. In the absence of material collateral and credit rating systems, the group lending model makes use of information impacted in the village about who is a reliable borrower, and villagers reveal such information by using their judgement to select fellow debtors for the small groups. In this way, the group based lending model both uses and builds upon the social capital of its borrowers. This makes group based lending efficient and effective, with low transaction costs for the provider. The use of group lending is motivated by economies of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than to individuals. Group lending however, has its limitations, both practical and psychological. Group loans are typically small, and the standardization of size, interest rate and maturity might not be ideal for all members. The dark side of the group dynamic is the social pressure it puts on its members, which can vary widely depending on individual characters and local cultures. The debt is not only of money towards a Microfinance Institution, but also of trust towards the fellow members (Jean-Luc, 2006).

Concept of Individual Lending : Individual lending often gives more flexibility in terms of amount, maturity and interest rates. Individual loans are more complicated and costly to offer for Microfinance Institutions and not all are able to deliver them. Compared to group loans, constraints are the need of a more through vetting of the borrower and the factoring of a higher risk due to the absence of co-borrowers. As a result, individual loans tend to be larger than group loans and sometimes, more expensive. Most individual loan customers are business owners who require larger and more flexible loans than what is available under group structure but are still below the radar of commercial banks as they are deemed either too poor and lack documentation to access bank credit or not poor enough to find a product that corresponds to their needs in the classic microfinance offer (Jean-Luc, 2006).

Concept of Sustainability of Small Enterprises : Small enterprises have been challenged by access to finance which happens to be the major impediment to Small Enterprises development. Microfinance has become an important component of SE activities with the provision of financial services to poor or low income clients who are normally excluded from traditional financial systems as they are considered 'unbankable' due to their inability to provide collateral, steady employment, and a verifiable credit history. Sustainability makes firms resilient so they are better able to adapt to change. Sustainable businesses are prepared for the future because they create long term financial value, understand how their actions affect the natural environment and try to reduce their impacts and see their ties to others and contribute to positive social change. A significant problem in the measurement of performance outcomes of entrepreneurship is to reach consensus on suitable measures of performance (Ardishvili *et al.*, 1998).

While a range of financial and non-financial indicators have been suggested as measures of performance, prior research has tended to focus on variables for which information has been easy to gather. Reviews of the literature found possible indicators of performance which include assets, employment, market share, physical output, profits and sales. The current study borrowed sustainability indicators as outlined by (Delmar *et al.*, 2003). These indicators; (employment rates, sales revenue, profits and capital accumulation overtime) were treated as the measures to sustainability.

Conceptual Framework : In order to survive in the market, entrepreneurs often spread their risks by operating more than one enterprise and thus constantly requiring capital to enable them optimally estimate environmental changes and strategically place their enterprises to adapt to these changes. Lack of capital remains the greatest constraint to SE survival. Based on the literature postulations of the flexible nature of Small Enterprises, this study conceptualizes that if access to credit would be guaranteed, then Small Enterprises should be more flexible and adapts to environmental challenges through innovations, changes in business strategies and capitalize on their risk-taking characteristics. The study would look at capital finance as an independent factor which affects Small Enterprises in various aspects of its dealings. The study employed a conceptual framework as shown in figure 1.

Independent variable **Dependent Variable**

(Microfinance Services) **(Sustainability)**

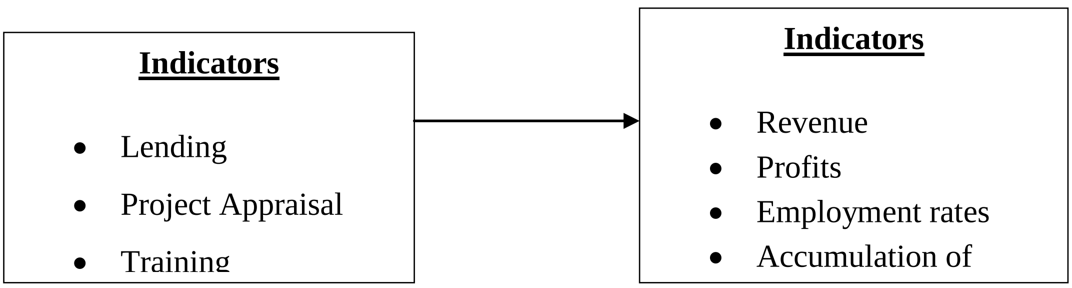

Fig: 1: Hypothesized Conceptual Framework

Source; (Author 2014)

Revenue : Delmar *et al*., (2003) discussed the various performance measures and suggested that if only one indicator had to be chosen as a measure of firm growth, then the preferred measure of growth should be sales. Sales figures are relatively easy to obtain and reflect both short term and long-term changes in the firm. In addition, as Barkham (1996) points out, it is also the indicator favored by entrepreneurs themselves. Other arguments for using sales growth are based on the growth process being driven by demand for the firm's products and services. Increasing sales will allow growth along other dimensions such as employees and assets. Sales though, may not always the best measure of performance. Delmar *et al*., (2003) note that start-up and high technology firms may grow significantly in employment and assets before any significant sales are made. As a result, growth in employment and assets should also be considered as performance measures. Similarly, the current study treated increasing revenue as an indicator of positive sustainability whereas declining revenues indicates poor sustainability.

Employment Rates : Employment has been considered an alternative measure for performance and with the public interest in new employment there are arguments that employment growth is an important dimension to capture (Wiklund, 1999). Measuring performance by employment growth can be problematic though, since this measure can be affected by productivity changes, replacement of employees with capital investments and outsourcing of activities. As a result, a firm can grow significantly in output without any increase in employment (Delmar *et al*., 2003). The current study treated low employee turnover rates to be an indicator of good or improved sustainability where as high employee turnover rates signified poor sustainability.

Capital Accumulation Overtime : Growth in assets is another useful sustainability measure that has been considered however measuring growth in terms of assets can be difficult from an accounting perspective. Service firms for example may have considerable intangible assets which may not be reflected in the firms' balance sheet (Wiklund, 1999). Other problems include differences in capital intensity ratios across industries (Delmar *et al.,* 2003). The present study considered capital fluctuations to be an indicator of sustainability. Stable and increasing capital accumulation signified good or improved sustainability whereas declining capital levels signified poor sustainability.

Profits : Profitability is another important measure of performance that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of entrepreneurship as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors (Norton, 2002), then profitability measures are particularly appealing. This also implies that economic success is required by high performance firms. Alternative views are given by (Delmar *et al*., 2003), who point out that while profits are an important indicator of success, the relationship of profits to size is only evident in aggregate of firms or over long periods for individual firms. Profit margins and stability of profits overtime realized by small enterprises were some of the aspects that the present study considered to be indicators of sustainability.

Project Appraisal : Project appraisal analyzes whether a project is worthwhile in the light of its costs in terms of resource commitments and the projects expected benefits. Appraisal is an ex-ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. The technical aspect of appraisal is concerned with issues related to physical scale, layout, location of facilities, technology used, cost estimates and their relation to engineering or other data on which they are based, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of a project (Davis *et al.,* 1993).

Training : The use of social measures to ensure good financial performance by MFI. MFIs render advisory services to Small Enterprises to aid them act upon the advice thus enable them grow in business. They are taught how to introduce simple accounting and record keeping in their operations because most Small Enterprises do not keep accurate record of business which often leads to business failure. Financial and non-financial services are complementary, increasing the chances that a client will achieve the outcomes that financial services are designed to provide and therefore making it more likely that the client will repay a loan, make savings deposits, pay an insurance premium, and therefore contribute to the financial performance of an MFI (http://www.microfinancegateway.org (2010).

Lending Conditions : A condition precedent is an event that must occur before a contract can be fulfilled. Lenders will often require that borrowers provide certain documents and/or information (such as the company's constitutional documents or current financial information) before they will make funds available. This is the most common use of conditions precedent in finance transactions. Conditions precedent are also a means of safeguarding the funds put at risk by the lender. The conditions precedent will include all the necessary consents and approvals required to operate the borrower's business. These offer comfort on two levels: first, they confirm to the lender that the borrower is able to operate its business and finance the loan repayments. Secondly, in the event that the borrower defaults on the loan, the lender will know that it has all the necessary paperwork to continue the borrower's operations (whether by appointing an insolvency officeholder or selling the business to a third party) and repay the loan from the proceeds (Rosengard *et al*., 2000).

Research Design : The research adopted a survey research design which was suitable for collecting facts, views, opinions, attitudes and suggestions from the respondents on the effects of micro-finance institutions on sustainability of small enterprises in Huruma Estate. This thesis considers the survey research design more appropriate for collecting and analyzing the relevant data. According to Mugenda and Mugenda (1999), it is used to collect data on what people say on a given phenomenon by use of questionnaires and interviews.

Target Population : Target population is the entire group a researcher is interested in; the group about which the researcher wishes to draw conclusions. The study targeted a population of over 400 respondents from small-sized enterprises in Huruma Estate.

Sampling Size and Techniques

This study applied stratified sampling, then simple random sampling technique. Mugenda and Mugenda (2003) argue that random sampling is the key to obtaining a representative sample. The researcher used data from the Uasin Gishu County Government, Department of Commerce and Industry. The researcher obtained a published list of licensed small enterprises captured by the department which enabled him to stratify the listed enterprises categorically. Out of the many existent small enterprises in Huruma Estate, the list only comprised of licensed enterprises. This guided the researcher in forming the strata. 30percent of the target population was then used to arrive at the sample size; this is because the sample size which the researcher sought to get was manageable to collect data. It was also used since the target population was large and the research could not use a large population (Mugenda and Mugenda, 1999).

Table 1 Sample Frame

Category	Target Population	Percentage	Sample Size
Salons and Boutiques	90	30percent	27
Shoe Shiners and Repairs	70	30percent	21
Newspaper and Book Vendors	50	30percent	15
Hotels and Eateries	100	30percent	30
Kiosks and Shops	120	30percent	36
Total	**430**		**129**

Source: Uasin Gishu County Government (2014)

Mugenda and Mugenda (2003) formula was used as presented below:

Sample size= $nf = \frac{n}{1+(n)N}$

Where: nf = the desired sample size

n = the desired sample size when the population is more than 10,000

N= the estimate of the population size

Therefore, 129 respondents from the selected small businesses were selected.

VIII. DATA COLLECTION METHODS

The researcher used questionnaires to collect the data. The questionnaire is the most appropriate research tool as it allows the researcher to collect information from a large sample with diverse background; the findings remain confidential, save time and since they are presented in paper format there are no opportunity for bias (Kombo *et al*., 2006).

Validity and Reliability of the Instruments : Validity is the quality attributed to proposition or measures of the degree to which they conform to establish the truth. The purpose of construct validity is to show that the items measure and are correlated with what they purport to measure, and that the items do not correlate with other constructs (Mugenda and Mugenda, 2003). The content validity of an instrument is a matter of judgment by the professional. The researcher read extensively and intensively on the subject, engaged peers in discussion as well as consulted with the supervisor to ensure validity of the items in the data collection instrument. Reliability refers to the degree to which the instrument yields the same results on replicated trials (Orodho, 2009). It is therefore the degree of constancy or whether it can be relied upon to produce the same results when used in two or more attempts to measure theoretical concepts. A reliable measuring tool need not be applicable (Kothari, 2008).

To ensure reliability of the questionnaires, a pilot study comprising of 10 responds was carried out in Huruma Estate. This area was used for piloting because the two estates share similar conditions. Crobanch Alpha was used to determine a reliability index. The piloting of the questionnaire was to identify faults hence improve its reliability. The SPSS computer software aided in working out this Crobanch Alpha value to be achieved. According to Oluwatayo (2012), a reliability index of at least 0.7 is considered ideal for the study.

Table 2 Reliability Statistics

Cronbach's Alpha	N of Items
0 .946	4

IX. DATA ANALYSIS

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. This research will employ quantitative methods of analyzing data. In analysis, ratio scale is used in data measurement and both inferential and descriptive statistics was used to analyze the data. In descriptive statistics, the research will employ descriptive statistical tools such as Statistical Package for Social Sciences Version.17 which helped to describe the data and determine the extent used, use of graphs, pie charts and tables to present data.
Multiple regressions as a form of inferential statistics analysis was used to determine the relationship between the dependent and independent variables. . This model is expressed below;

$$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

β_O = Constant showing the direction of the relationship between the variables

Y = Sustainability, β = Beta, $X_{1\,=}$ Lending, $X_{2\,=}$ Training, $X_{3\,=}$ Project appraisal

β_1, β_2, $\beta_{3=}$ Coefficients of sustainability, ε = Error of prediction

X. RESULTS AND DISCUSSION

Measure of profitability

Respondents were asked to indicate whether their enterprises were experiencing sustainable performance. Findings of this item are discussed in the subsequent topics.

a) Revenue

Respondents were asked to indicate on average their monthly revenue collection. Findings were as indicated in Table 3.

Table 3 Monthly Revenue

Revenue	Frequency	Percent
Below 5000	38	35
5001- 10000	67	60
Above 10001	6	5
Total	**111**	**100**

Source: Field Data, (2014)

The study established that majority of the enterprises 60 percent were earning revenue of between 5001 and 10000. 35 percent were earning revenue below 5000 while 5percent were earning above 10001 on a monthly basis. It can be deduced that, majority of these enterprises were somehow generating enough revenues that could enable their sustainability. According to Delmar *et al*., (2003) the performance measure of an enterprise should be sales or the total revenue. This is because, it is easy to compute revenue in the short run and in the long run. In addition, Barkham (1996) points out, it is also the indicator favored by entrepreneurs themselves.

b) Profits

Respondents were asked to indicate their average monthly profits. Findings on this item were presented as in Table 4.

Table 4 Monthly Profits

Profit Margins	Frequency	Percent
Below 1000	21	19
2000-5000	50	45
Above 5000	40	36
Total	**111**	**100**

Source: Field Data, (2014)

The study established that, majority of the respondents; 45percent had profits margins of between 2000-5000 Kenya shillings. Profit margins of above 5000 Kenya shillings were earned by 36 percent of the respondents running the small enterprises while 19 percent of the respondents indicated that they earned profit margins ranging below 1000 Kenya shillings. According to (Delmar *et al.*, 2003), profitability is an important measure of performance that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm.

c) Number of Employees

Respondents were asked to indicate the number of employees in their enterprises. Findings of this item were as shown in Table 5.

Table 5 Number of Employees

Number of Employees	Frequency	Percent
No employees	32	29
1-5	69	62
6 and above	10	9
Total	**111**	**100**

Source: Field Data, (2014)

The study established that majority of the enterprises had between 1-5 employees as shown by 62 percent. 29 percent had had no employees in their enterprises while 9percent had 6 or more employees. These findings indicate that the enterprises were small scale businesses and were therefore small in size. Wiklund (1999) notes that employment has been considered an alternative measure for sustainability and with the public interest in new employment there are arguments that employment growth is an important dimension to capture. The present study established that, the number of employees was very few in the enterprises hence they may have been facing employment problems.

d) Capital Outlay

Respondents were asked to indicate on average their business worth in terms of capital invested. Findings of this item were presented in Table 6.

Table 6 Capital Outlay

Size of Capital	Frequency	Percent
1000- 5000	30	27
5001- 10000	44	40
10001 -20000	20	18
Above 20001	17	15
Total	**111**	**100**

Source: Field Data, (2014)

The study established that, majority of the enterprises had a capital outlay of between 5001- 10000 as indicated by 40percent. 27 percent had a capital outlay of between 1000-5000. 15 percent had a capital outlay of above 20001 while 18percent had a capital outlay of between 10001 and 20000. These findings further indicate that the enterprises were small scale businesses. According to (Wiklund, 1999), growth in assets is a useful sustainability measure that has been considered. The amount of capital invested tells more on a business' financial capability.

e) Sustainability Overtime

Respondents were required to rate the sustainability of their enterprises overtime based on revenue generation, profits, capital fluctuations and employee turnover. A four point likert scale was used to measure sustainability. Findings are as indicated in Table 7.

Table 7 Sustainability Overtime

Indicators of sustainability	VS	S	US	VUS
Monthly revenue	10	20	79	2
Profits	0	11	1	99
Employment rates	77	23	11	0
Accumulation of stock/ capital	50	60	1	0
Mean	**34**	**28**	**22**	**27**
Percent	**31**	**25**	**21**	**23**

Source: Field Data, (2014)

The study established that, on average, majority of the enterprises had achieved sustainability even though they were facing problems. This is indicated by 31percent of the enterprises whose owners indicated that they were very stable regarding revenue generation, profits, employment rates, and accumulation of stock overtime. 25 percent further cited that their enterprise were stable in terms of performance. 23 percent cited that their enterprises were very unstable while 21 percent cited that their enterprises were unstable. The researcher further noted that, monthly revenue and profits were generally unstable for a good number of the enterprises. These findings are in agreement with Wiklund (1999) that marinating revenues and profits are a challenge to each and every business enterprise.

Lending Conditions and Sustainability : Respondents were asked to indicate the lending conditions that microfinance institutions impose on small enterprises. Findings of this item were discussed in accordance to the subsequent topics.

a) Access to Loans

Respondents were asked to indicate whether they were accessing loans from microfinance institutions. Findings were presented as in Table 8.

Table 8 Access to Loans

Response	Frequency	Percent
Yes	**77**	**69**
No	**34**	**31**
Total	**111**	**100**

Source: Field Data, (2014)

The study established that, majority of the respondents were accessing loans as shown by 69percent. 31percent on the other hand cited that they were not receiving loans from MFIs. Respondents further indicated that, lending conditions were not in their favour as they lacked collateral, made unstable profits and revenues to be able to qualify for loans.

Having established that respondents were facing lending conditions, the researcher was keen to establish respondents' level of agreement concerning the existence of lending conditions among microfinance institutions. A five point likert scale was used to analyze the responses to ascertain the degree of agreement. Table 9 summarizes the results of the analysis.

Table 9 Microfinance Institutions Lending Conditions

Lending Conditions	SA	A	NS	D	SD
Microfinance institutions limit the Size of credit extended to small enterprises	79	30	0	2	0
Microfinance institutions take little time to process a loan compared to a bank	90	11	0	0	0
Microfinance institutions offer universal lending rates irrespective of credit worthiness/ size of credit fetched by borrowers	0	0	100	11	0
Moderate interest rate by microfinance institutions encourage small enterprises to borrow loans	30	50	20	79	58
Microfinance institutions offer uncollateralized loans to groups	2	3	0	6	100
Microfinance institutions offer uncollateralized loans to individuals	1	3	80	20	7
Microfinance institutions do not finance full business needs	111	0	0	0	0
Microfinance institutions ask for collateral which small businesses do not have	111	0	0	0	0
Microfinance institutions' Policy on loan repayment period is friendly as compared to commercial banks	50	12	10	39	0
Microfinance institutions lending policies have encouraged even the poor to access loans	30	5	45	0	31
Mean	**50**	**11**	**26**	**16**	**8**
Percent	**45**	**10**	**23**	**14**	**8**

Source: Field Data, (2014)

The study established that, 50percent of the respondents were in strong agreement that there was existence of lending conditions in the various microfinance institutions. 14 percent disagreed, 8 percent strongly disagreed while 23 percent were not sure about the lending conditions. The researcher further noted that, according to the respondents, lending conditions that bore more weight on access to loans include; lack of full financial support by microfinance institutions, need for collateral when giving borrowers loans, limiting the size of credit and processing loans within a short time. Lending conditions may impede borrowing by small enterprises since they may not be in possession of the necessary requirements. As (Dondo, 1999) notes that unlike larger businesses, small enterprises have limited access to credit, preventing them from making larger investments to improve their operations, upgrade to new technologies, or expand. Credit enables larger investments to improve operations, upgrading to new technologies, or expanding business which in return enable sustainability of Small Enterprises. Since some enterprises were not accessing credit, it is likely that lending conditions were barring them from accessing credit and lack of credit may have led to sustainability problems of the enterprises.

Training Services offered by Microfinance Institutions and Sustainability of Small Enterprises

The study sought to determine training services offered by microfinance institutions. Findings on this item were discussed and presented as in the subsequent subheadings.

a) Whether Microfinance Institutions Offered Training Services

Respondents were asked to indicate whether microfinance institutions offered training services to their members. Findings were presented in Fig 2.

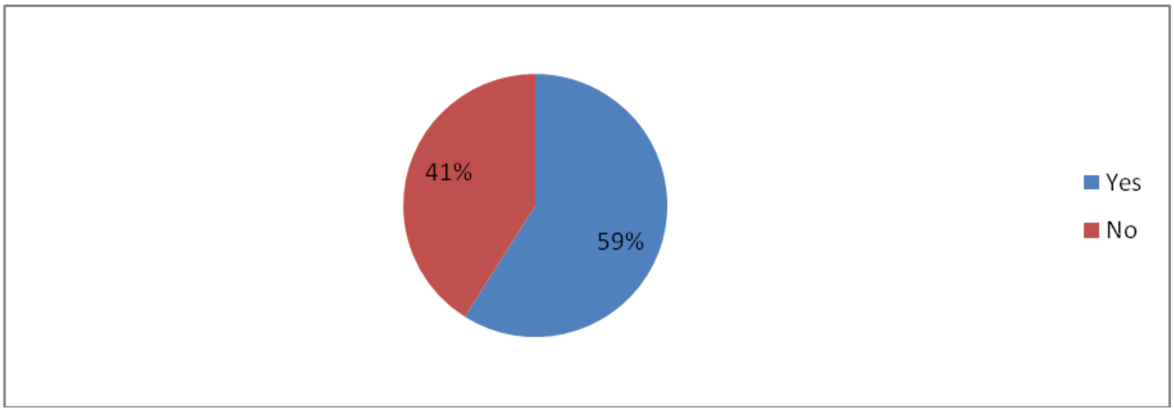

Fig 2 Whether Microfinance Institutions Offered Training Services

Source: Field Data, (2014)

Study findings indicated that, majority of the respondents were accessing training services offered by microfinance institutions. This is indicated by 59 percent of the respondents who agreed that they were accessing training services. 41 percent disagreed that they accessed training services. It is acceptable that, training programmes were available to majority of entrepreneurs. Having been trained it is expected that respondents were well equipped with skills that would enable them manage their businesses. Good management ensures sustainability (http://www.microfinancegateway.org).

b) Respondents Level of Agreement with the Extent of Training Activities by Microfinance Institutions

On a scale of five, respondents were asked to indicate the extent to which microfinance institutions were offering training programmes. Findings were summarized as in Table 10.

Table 10 Extent of Practice of Training Programmes

Training Programmes	A	S	N
Training on book keeping skills	22	30	59
Training on accounting skills	50	45	18
Training on business management skills like planning, controlling and decision making	10	81	20
Training on record keeping skills	70	10	31
Training on customer relations skills	15	28	68
Means	**34**	**38**	**39**

Percent	**31**	**34**	**35**

Source: Field Data, (2014)

The study established that on average, majority of the entrepreneurs had not received any training despite training programmes being there. This is indicated by 35percent of the respondents who cited that they had not received any form of training. 34percent of the respondents further indicated that training was not adequate as it was not done regularly. 31 percent cited that training was done regularly. This study concludes that, generally adequate training for the entrepreneurs was lacking. The importance of training as noted in (http://www.microfinancegateway.org) is to render advisory services to small enterprises to aid them act upon the advice thus enable them grow in business. Since adequate training was lacking, it is likely that the Small Enterprises lacked proper management skills and this may have affected their performance negatively.

Project Appraisal by Microfinance Institutions : The study sought to determine whether project appraisal by microfinance institutions influence sustainability. To answer this objective, the study developed a set of statements that are discussed in the subsequent sub headings.

a) Frequency of Project Appraisal

Respondents were asked to indicate how often microfinance institutions appraise their projects. Findings were as indicated as in Fig 3.

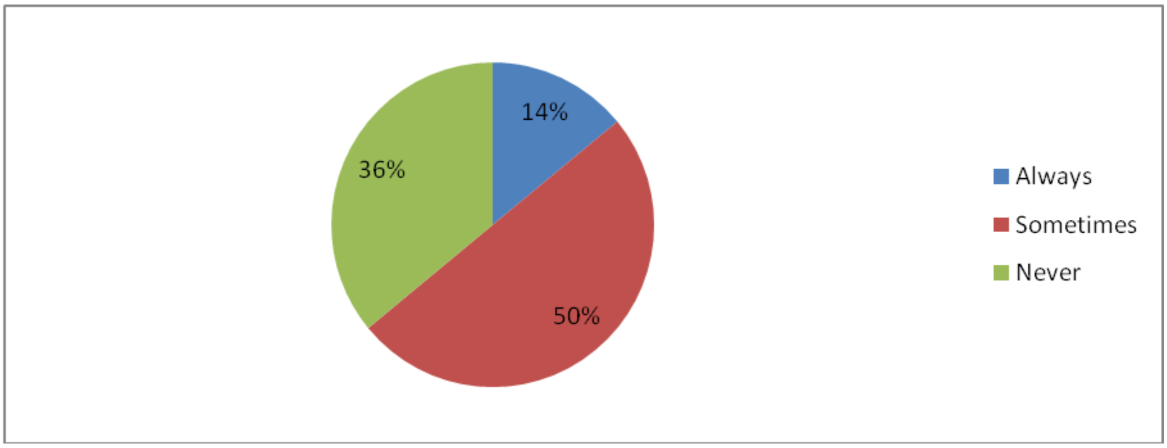

Fig 4.3 Frequency of Project Appraisal by Microfinance Institutions

Source: Field Data, (2014)

The study established that, majority of the projects 50percent, were not always approved. 36percent were never approved while 14percent were always approved. These findings are an indication that, majority of the projects failed to kick off even though they may have been profitable. Having established that majority of the projects were not being approved, the researcher was keen to establish the conditions that were impeding financing of these projects. Findings of this item were summarized as in Table 11.

Table 11 Project Appraisal by Microfinance Institutions

Project appraisal Conditions	**SA**	**A**	**NS**	**D**	**SD**
Microfinance institutions finance any kind of project regardless of the credit requirements	10	5	20	30	46
Most projects are locked on the ground that they may not be profitable enough	100	11	0	0	0
Microfinance institutions only finance those projects that they are sure of their profitable performance	105	6	0	0	0
Mean	**72**	**7**	**6**	**10**	**16**
Percent	**65**	**6**	**5**	**9**	**15**

Source: Field Data, (2014)

The study established that, majority of the respondents on average were in strong agreement with the existence of project appraisal conditions imposed by microfinance institutions. This is as per 65 percent of the respondents who strongly agreed with the statements. 15 percent on the other strongly disagreed with the statements seeking to establish the availability of project appraisal conditions by microfinance institutions. Further, majority of the respondents specifically felt that the conditions which bore weight were barring of projects on the ground that they were not profitable and financing of those projects that microfinance institutions feel are likely to be profitable. Lack of project appraisal limits business growth which is very essential for the sustainability of business.

It can be deduced that, a number of businesses that had failed to sustain their performance was partly due to lack of appraisal for their projects. A summary of the findings in table 4.11 is as shown in Figure 4.6**.** These findings concurred with findings of (Davis *et al*., 1993**)** that found project appraisal to be significant factor in sustainability of small enterprises. This study established that appraisal is an ex-ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. The present study focused on the financial aspect as determinant for project appraisal. However, (Davis *et al*., 1993**)** focused on the technical aspect of appraisal which is concerned with issues related to physical scale, layout, location of facilities, technology used, cost estimates and their relation to engineering or other data on which they are based, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of a project. Financial appraisal (investment appraisal) on the other hand is concerned with questions such as the adequacy of funds, the financial viability of the project, the borrower's ability to service debt, procedures for recovering investment and operating costs

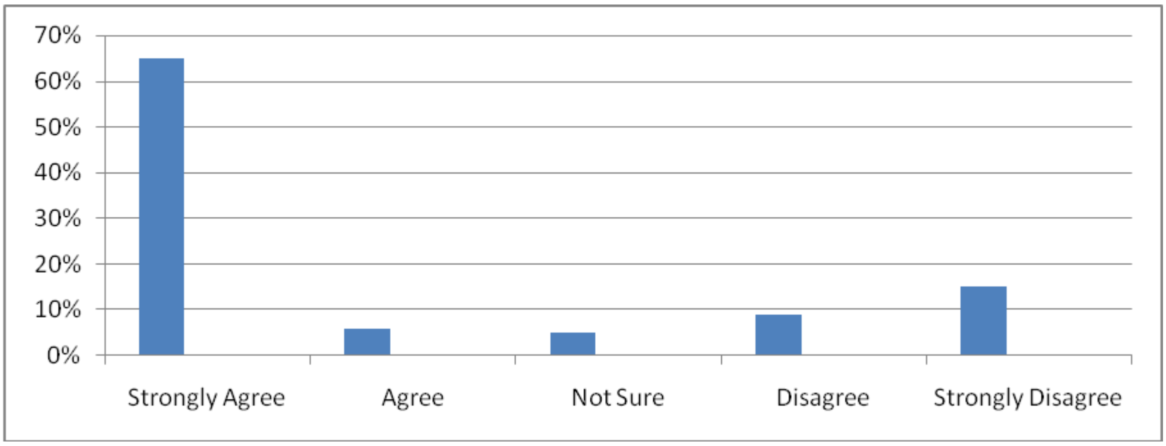

Fig 4 Existence of Project Appraisal Conditions in Microfinance Institutions
Source: Field Data, (2014)

Regression Analysis of Microfinance Services' on Sustainability : Since the study had established that the variations in the independent variables caused the variations in the dependent variable, it was necessary to determine the strength of the relationship between the variables. A multiple regression analysis was conducted to ascertain the strength of the relationship between the variables. Summary of the findings are presented in the subsequent tables.

Table 12 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984[a]	.969	.968	.09809

a. Predictors: (Constant), LNX3, LNX2, LNX1

b. Dependent Variable: LNY

Table 12 illustrates that, 96 percent of variations in sustainability are explained by; lending conditions, training and project appraisal activities of microfinance institutions. This conclusion is per the adjusted R Square and the coefficient of determination, R Square which are 0.968 and 0.969 respectively. These findings are in agreement with those of (Ondiege, 1996), (Musinga, 1994) and (Davis *et al*., 1993) that found lending conditions, training of small business owners and project appraisal to be significant factors in sustainability of small enterprises.

Table 13 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	31.746	3	10.582	1.1003	.000[a]
	Residual	1.029	107	.010		
	Total	32.775	110			

a. Predictors: (Constant), LNX3, LNX2, LNX1

b. Dependent Variable: LNY

Table 13 shows the results of Analysis of Variance (ANOVA). The researcher was interested in the F statistics. The p value for the F statistic was 0.000. This shows that the model has explanatory power. These findings concur with (Ondiege, 1996), (Musinga, 1994) and (Davis *et al*., 1993) that lending conditions, training of small business owners and project appraisal do explain sustainability of small enterprises.

Table 14 Showing Predictors of Sustainability

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.014	.017		.829	.409
	LNX1	.282	.033	.321	8.550	.000
	LNX2	.875	.039	.720	22.229	.000
	LNX3	-.022	.025	-.027	-.884	.379

a. Dependent Variable: LNY

These results indicate that there is a direct positive relationship between the dependent and independent variables. This means that, when there is favorable improvement in lending conditions, sustainability also improves by 28.2 percent. These findings are in agreement with Ondiege (1996) that lending conditions are a significant factor when it comes to access of loans from MFIs. These findings further concur with a study by Dondo (1999) that also notes the challenges that face small enterprises in accessing loans from financial institutions. This study notes that, most small enterprise financing needs exceed the small loans that microfinance institutions provide. Yet, larger commercial banks often find it too expensive to lend to small enterprises because the cost of assessing whether an SE is creditworthy is highly relative to the return banks could earn by lending to them. Many banks also perceive small enterprises as being too risky and more likely to default on loans. These findings indicate that, lending conditions are a challenge to the sustainability of small enterprises. Similarly, increase in frequency of training of small business owners will result to an improvement in sustainability of small businesses by 87.5percent. These findings are in agreement with a study by (Musinga, 1994) that also found a significant relationship between training of small business owners and performance of their enterprises. In this study, it was established that, when the business owners were trained in book keeping techniques, they were able to manage their business accounts effectively thus improving the performance of their enterprises. It is notable that, lending and training were the only significant variables in the model as shown by their P values (0.000) respectively being less than 0.05 level of significance, $P < 0.05$). Project appraisal had a P value greater than 0.05 level of significance, $P > 0.05$ hence the study failed to reject the null hypothesis since there was no significant relationship between project appraisal and sustainability. There is a weak inverse relationship between project appraisal and sustainability as indicated by the coefficient (-0.022). These findings are not in agreement with those of (Davis *et al*., 1993) that established that project appraisal is a significant factor when it comes to assessing projected performance of a business.

Prove of Homoscedasticity in the Regression Model

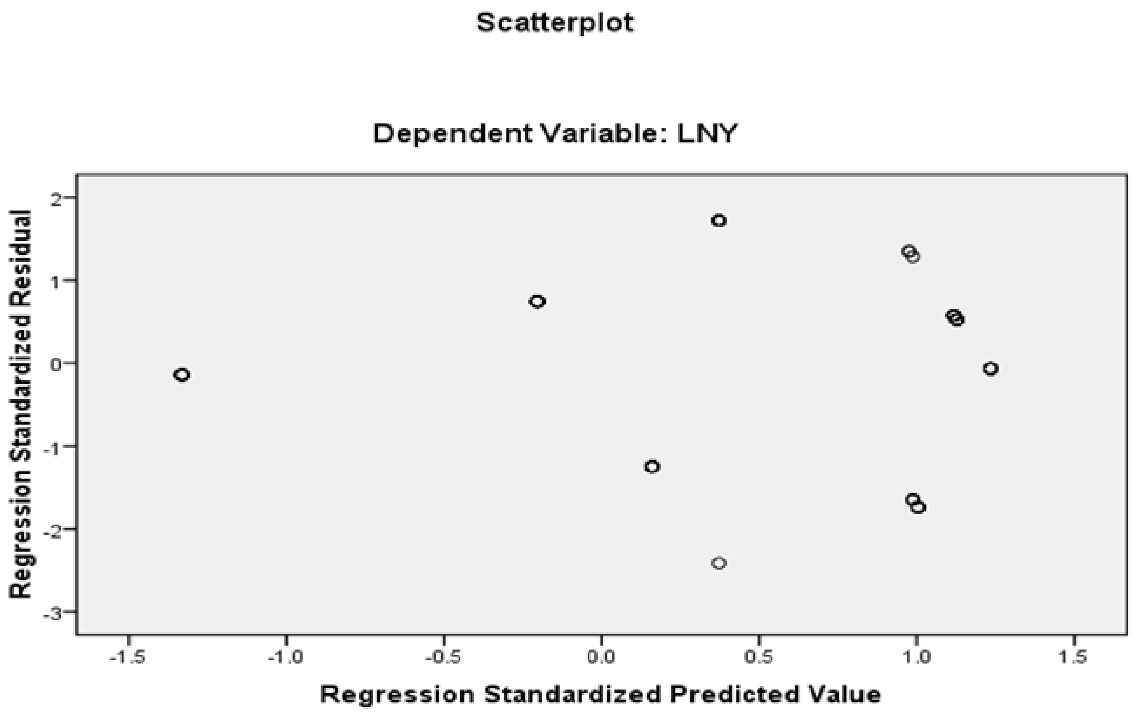

Fig 5 Scatter Plot of Residuals

Source: Field Data, (2014)

Findings in figure 5 show that the distribution of the residuals indicates a random pattern implying that the problem of heteroscedasticity had been eliminated in the model. Therefore, the assumption of homoscedasticity of the residuals had been satisfied in the model according to Orodho (2009).

XI. CONCLUSIONS

The study investigated the effects of micro-finance institutions on the sustainability of Small Enterprises in Huruma Estate, Eldoret Town. It was limited to microfinance as the researcher sought to find out how microfinance institutions contribute to the sustainability of Small Enterprises in Huruma Estate, Eldoret Town. During the study, some of the respondents were unwilling to cooperate or respond due to confidentiality purposes.

The study concluded that; Lending conditions were impeding entrepreneurs from accessing credit from the microfinance institutions. Some of the conditions that were either encouraging or discouraging borrowing include; lack of full financial support by microfinance institutions, need for collateral when giving borrowers loans, limiting the size of credit and processing loans within a short time. Training by microfinance institutions was not adequate. Entrepreneurs were not accessing training services regularly enough to enable them acquire business management skills. Project appraisal by microfinance institutions was not satisfactory. Projects were locked out of financing options simply because they were not convincing in terms of their profitability. Entrepreneurs were therefore denied the chance to expand and grow their businesses. Project appraisal is still very low. Certain conditions that are imposed on entrepreneurs impede them from achieving business growth.

XII. ACKNOWLEDGEMENT

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