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## **Effect of Microfinance Services on Entrepreneurship Development in Uasin-Gishu County Kenya**

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### **ABSTRACT**

The purpose of this study was to investigate the effect of microfinance services on entrepreneurship development. This study was guided by the following objectives: to examine the effects of saving services on entrepreneurship development; to determine the effects of microcredit services on the entrepreneurship development; to find out the effects of clients training and education on entrepreneurship development and to find out the effects of management consultancy on entrepreneurship development. The study was guided by the Grameen model which has been used as an ideal theory for microfinance. Cross sectional survey research design was used to elicit data from a population of 114, with a sample size of 92 staff from MFI who had been selected under this study due to homogeneity. A structured questionnaire was the main data collection instrument. The collected data was then coded and analyzed using the SPSS version 16 computer program. Descriptive statistics such as frequencies, percentages and standard deviations and inferential statistics such as Pearson's Product Moment Regression analysis was used in the qualitative and quantitative analysis of data. The study found that there was a positive effect on entrepreneurship development. The study recommended that microfinance institutions should train entrepreneurs on proper business practices to avoid business failure. Specifically they should train entrepreneurs on proper finance and business management practices so as to professionally manage their businesses.

**Keywords:** microfinance services, Entrepreneurship and Development

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## **INTRODUCTION**

### **Background of the Study**

The microfinance sector in Kenya consists of a large number of competing institutions which vary in formality, commercial orientation, professionalism, visibility, size, geographical coverage (Dondo, 2003).

Micro-financial institutions in Kenya are in the midst of a commercialization process in which more regulations, more profit orientation and more competition are its essential characteristics. International organizations are encouraging this process and inviting NGOs to join; while the perception of MFIs as profitable businesses has increased. Commercialization is characterized according to by size and observed between regulated and unregulated institutions. But financial institutions must be built on solid foundations to avoid a decreasing rate of repaying or risk mismanagement. Time, good institutions design, and a favorable business environment are necessary to build efficient financial institutions (Dondo et al, 1994).

### **Statement of the Problem**

Ideally, Microfinance is one of the practical development strategies and approaches that should be implemented and supported to resolve the failures of the credit markets and solidarity sentiments prevail amongst the members who constitute microfinance groups.

Currently, the governments realize that resource-poor rural households need affordable credit to enhance household incomes, the formal financial institutions failed to reach the poor because they adhere to stringent collateral requirements, and the credit disbursement and recovery procedures are not suitable for their economic environment.

However, study done by Allalade *et al.* (2013) on Microfinance Bank as a Catalyst for Entrepreneurship Development in Nigeria: Evidence from Ogun State found out that majority of the entrepreneurs who are SME owners capitalized mostly on personal income and loans from family and friends and not from the microfinance bank institutions because they could not provide collateral assets requested for by these microfinance banks which negates what is in their policy and objectives, in a study by Madiha, A & Tanveer, A, N.(2013) on Role of Microfinance Institutions in Entrepreneurship Development in District Gujrat, Pakistan found that, microfinance institutions play a significant role in entrepreneurship development in district Gujrat Pakistan and the clients who are taking loan from the Tameer bank they use this amount to start a business than the other ones who use it for marriage, education house building purpose, in yet another study by Otieno et, al.(2011) on Effect of provision of micro finance on the performance of micro enterprises: A study of youth micro enterprises under Kenya Rural Enterprise Program (K-REP), Kisii County, Kenya found that provision of micro finance has a significant effect on the performance of youth micro enterprises in Kenya. . This study therefore seeks to investigate the effect of microfinance services on entrepreneurship development in Uasin Gishu County Kenya.

### **The Main Objective of the Study**

The main objective of the study was to investigate the effect of microfinance institutions services on entrepreneurship development in Uasin Gishu County Kenya.

### **Specific Objectives of the Study**

- i. To examine the effect of microfinance saving services on entrepreneurship development in Uasin Gishu County Kenya,
- ii. To establish the effect of microfinance lending services on entrepreneurship development in Uasin Gishu County Kenya,
- iii. To determine the effect of microfinance client training and education services on entrepreneurship development in Uasin Gishu County Kenya,
- iv. To explore the effect of microfinance management consultancy services on entrepreneurship development in Uasin Gishu County Kenya.

### **Significance of the Study**

The Microfinance institutions benefited from the study to improve on their market share as they gained knowledge on effects of microfinance services and best way clients can utilize it. This will make the MFIs be specific on what best entrepreneurship development will be of value to their clients. The government also benefited as they were able to make policies that enabled her to educate MFI clients on the effect of microfinance services the study was justified as it laid a foundation for academicians who would like to carry out further research concerning issue of multiple borrowing.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Economic Theory**

The economic theory treats microfinance institutions (MFIs) as infant sector, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as social consciousness driven people.

This situation suggests that the MFIs will not become financially viable in the long run. One solution to this problem is to treat MFIs as infant industries, so that micro-lending businesses can be subsidized during their initial stages of operation. These skills should reduce the cost of transaction, disseminate information, and increase the micro entrepreneurs' ability to assess effectively available information to make sound business decisions. In this respect, society benefits from what is, in effect, a productive process leading to the creation of public goods as spin-offs from the growth of microfinance.

### Micro Credit Theory

This assumption creates three groups of entrepreneurs namely, the traditional capitalists who mainly maximize financial returns or profits, the philanthropic organizations (like traditional microcredit NGOs) and public credit agencies that mainly maximize social returns, the entrepreneurs who combine both rates in making their investment decisions under the additional constraint that financial return cannot be negative. Other enterprises could include financial services for the poor, educational institutions, training centers, and renewable energy ventures, and old-age homes, facilities for people with special needs, recycling enterprises, and the marketing of products made by the poor.

### Theory of Capitalism (Self-Interest)

The psychological idea is a criticism of the capitalist entrepreneurs' profit maximizing motive. This suggests that the psychological and economic arguments need critical evaluation to judge the academic virtue of the microfinance theory.

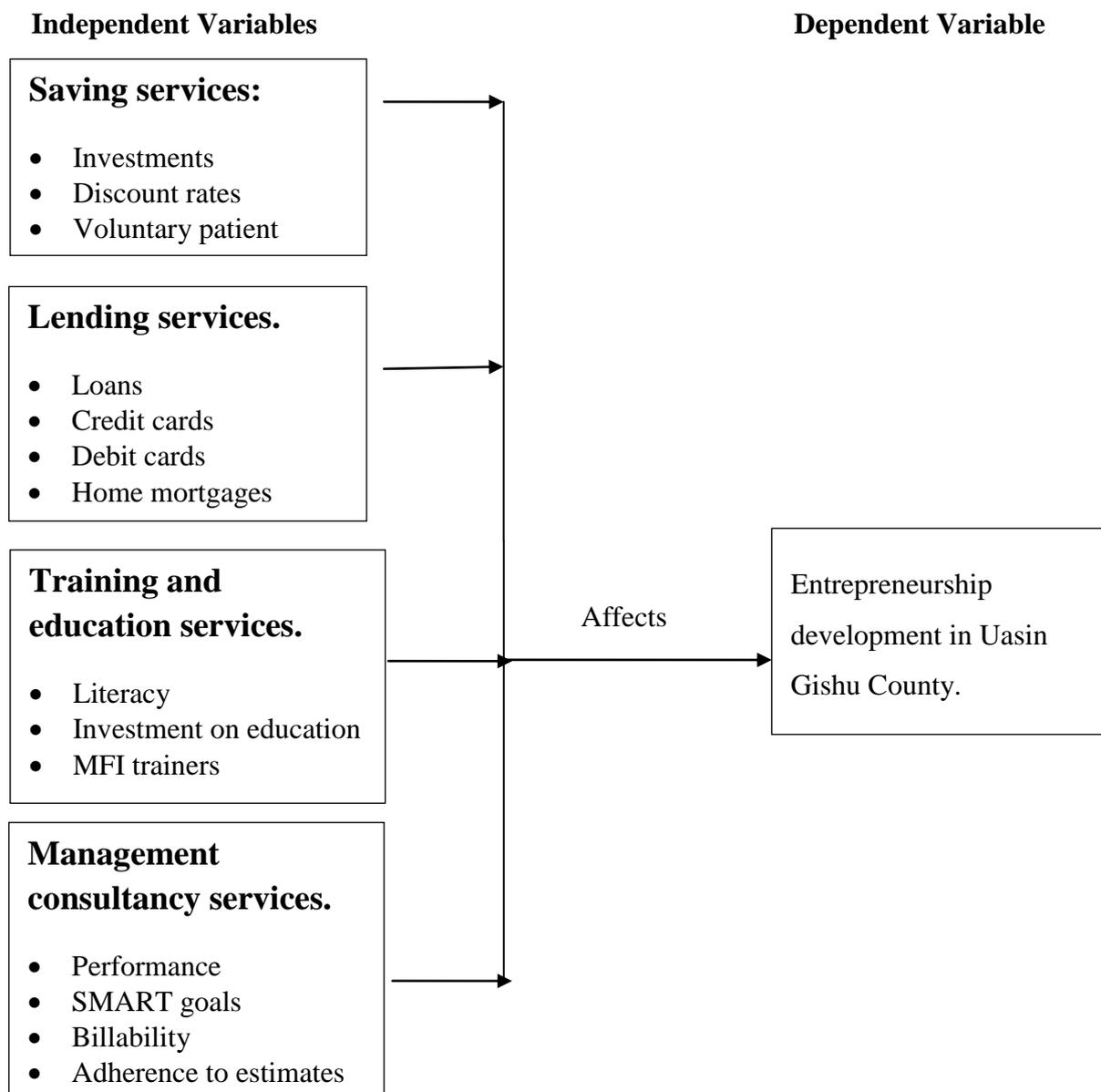


Figure2.1. Conceptual Framework

Source: researcher (2014)

## RESEARCH METHODOLOGY

### Study Design

This study employed a triangulation of explanatory and descriptive study design that seeks to gain an in-depth understanding of the effect of microfinance institutions services on entrepreneurship development in Uasin-Gishu County.

### Target Population

The target population of this study was all the employees of MFIs in Kenya. There are 1,780 such employees (CBK, 2014). However, the proportion of the population that has the characteristics to be measured constitutes 114 employees of the six registered MFIs managing credit provision in the period between 2009 and 2014. Their categorization is as follows;

**Table3.1.** Target Population

Branch	Population frequency	Percentage %
Faulu Kenya DTM Limited	54	47.4
Kenya Women Finance Trust DTM Limited	32	28.0
Rafiki Deposit Taking Microfinance	6	5.3
Remu DTM Limited	6	5.3
SMEP Deposit Taking Microfinance Limited	12	10.6
UWEZO Deposit Taking Microfinance Limited	4	3.6
Total	114	100

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

### Data Collection Instrument

Data was collected mainly by use of questionnaire. The questionnaire consisted of open and closed ended questions. It comprised of two sections. The first part sought to obtain general information on respondents’ profile. The second part was devoted to analyzing the effect of microfinance institutions services on entrepreneurship development in Uasin-Gishu County, where the four variables of the study were put into focus.

### Data Analysis

The researcher mainly used descriptive statistics to analyze data. This included frequency distribution tables, mean and standard deviation. Data was coded and entered into the statistical package for the social sciences (SPSS) for analysis. SPSS was used to perform analysis as it aids in organizing and summarizing the data.

In addition to the above, inferential statistics especially multiple regression analysis was done. Correlation was carried out to establish the effect of microfinance services affect entrepreneurship development to a greater extent. Data presentation was done by use of pie charts and graphs percentages and frequency tables. Multiple linear regressions was used to establish the predictive power of the study model specified by the following equation:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Whereby Y = Entrepreneurship development in Uasin Gishu County

X<sub>1</sub> = Saving services

X<sub>2</sub> = Microcredit services

X<sub>3</sub> = Training and education

X<sub>4</sub> = Management consultancy

ε = Error term/Erroneous variables

β<sub>0</sub> =is the intercept

## RESULTS

### General Information

The general information that was sought from the respondents included their age, gender, academic qualifications, experience as a secondary school teacher, job groups and their monthly salaries.

### Response Rate of the Study

Figure 4.1 shows the response rate of this study. The researcher administered 126 questionnaires in total and managed to obtain 117 completed questionnaires representing 93% response rate.

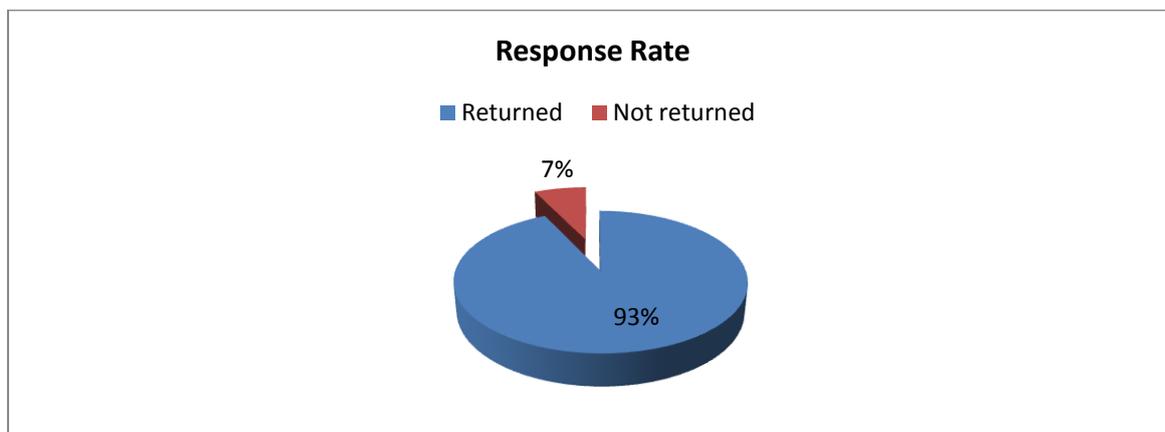


Figure4.1. Response Rate of the Study

### Reliability Analysis

In this study to ensure the reliability of the instrument Cronbach’s Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that saving services had a coefficient of 0.847, lending services 0.751, training and education 0.881 and consultancy 0.991. All constructs depicted that the value of Cronbach’s Alpha are above the suggested value of 0.5 thus the study was reliable (Nunnally & Bernstein, 1994; Nunnally, 1974). On the basis of reliability test it was supposed that the scales used in this study is reliable to capture the constructs as shown in the Table 4.1.

Table4.1. Reliability Analysis

MFI Service	Cronbach’s Alpha	Comments
Saving services	.847	Accepted
Lending services	.751	Accepted
Training and education	.881	Accepted
Consultancy services	.991	Accepted

### Gender of Respondent

Respondents were further required to indicate their gender. The research findings revealed that majority (56%) of the respondents were male and the remaining 44% of them were female. The findings are as presented in Figure 4.3.

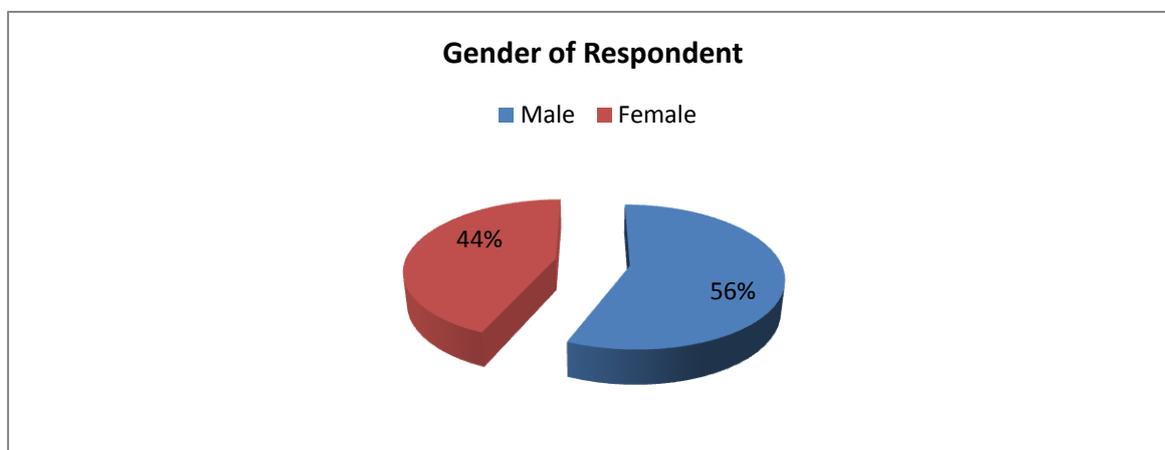


Figure4.3. Gender of Respondent

### Age of Respondent

Majority (68%) of the respondents indicated that they were aged between 31-35 years at 35% and then followed by those who were aged between 25-30 years as represented at 30%. Only 2% of the respondents indicated that they aged over 50 years as shown in Figure 4.2.

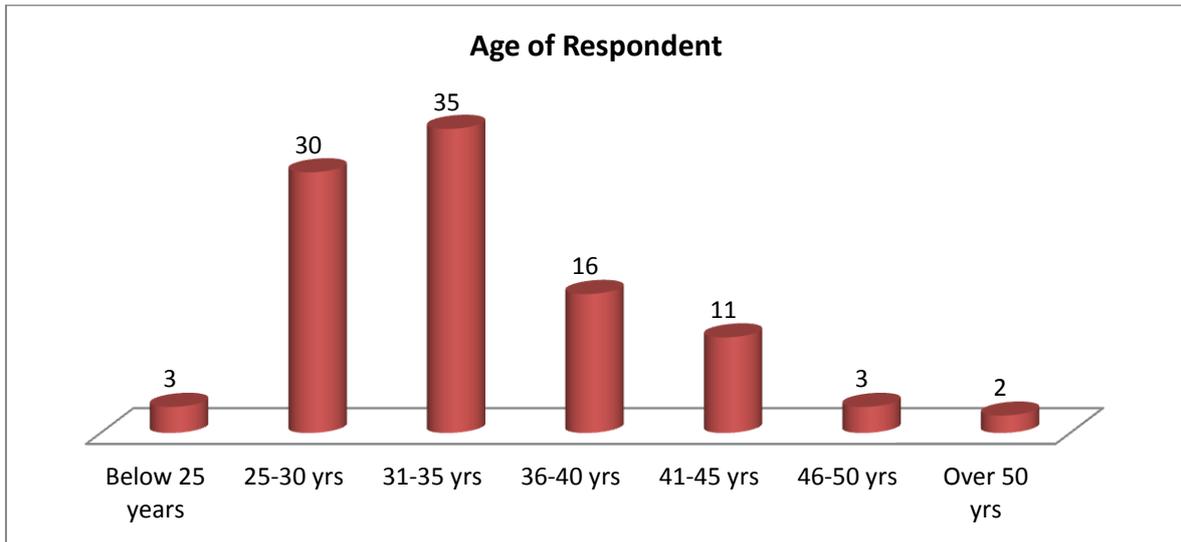


Figure4.2. Age of Respondent

### Period Worked for Organization

Respondents were further required to indicate the duration of time in years they had worked in their organizations. Majority (45%) of the respondents that they had worked for their organization for a period of between 2-5 years. They were closely followed by those who had worked for their organizations for a period of between 6-10 years. This therefore reveals that majority of the respondents had worked for a period long enough to enable them comment on the factors under study as shown in Figure 4.3.

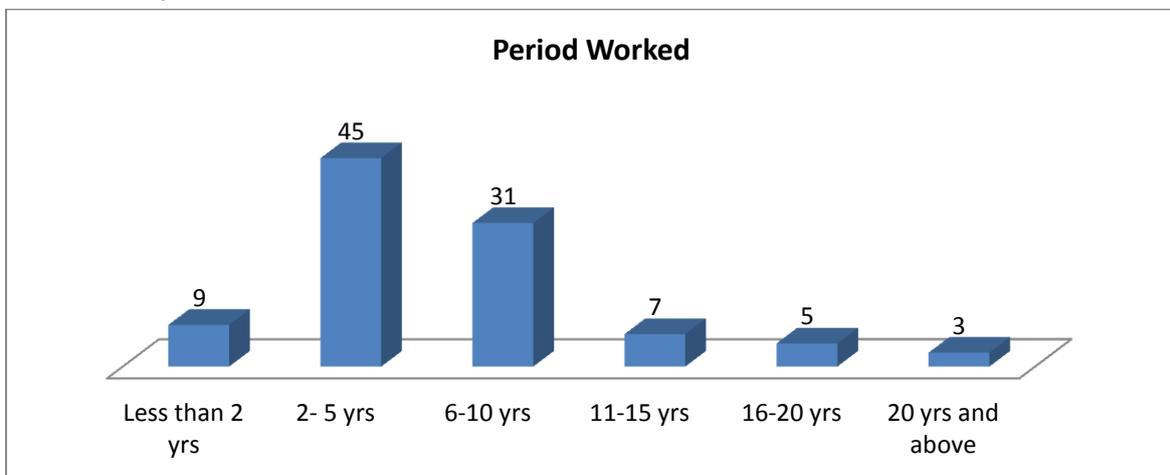


Figure4.3. Period Worked for Organization

### Academic Qualifications

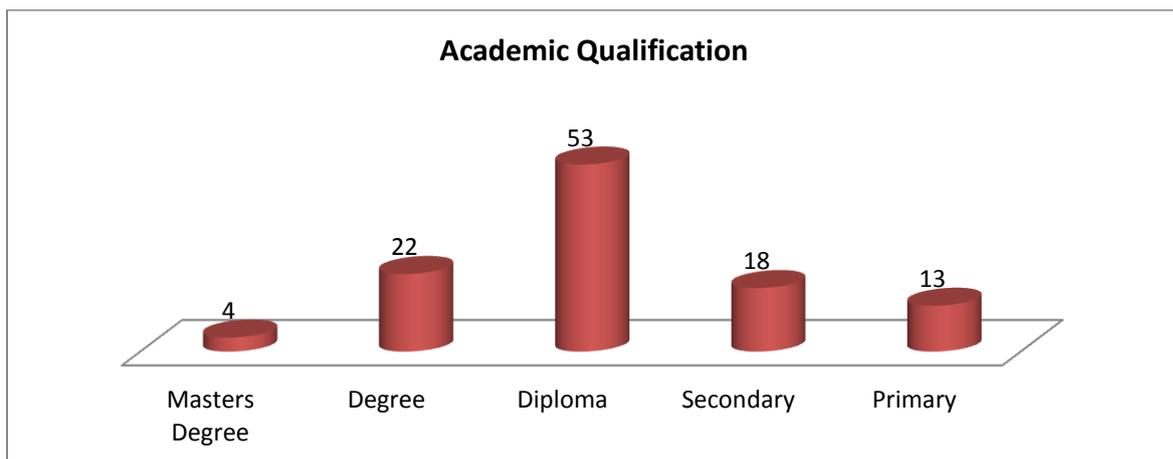


Figure4.4. Academic Qualification

Respondents were further required to indicate the highest academic qualifications they had attained. Majority (53%) of the respondents indicated that they had attained Diploma level of education. They were followed by those who had attained Bachelors Degree as represented at 22%. Those who had attained secondary and primary level of education respectively followed at 18% and 13%. Only 4% of the respondents had attained that they had attained master’s degree level of education. The findings are as presented in Figure 4.4.

### Micro-Finance Services

This section focuses on the findings of micro-finance services under study. It specifically analyzes data on saving services, lending services, training and education consultancy services.

#### Saving Services

Respondents were required to indicate their level of agreement with various MFIs savings services on entrepreneurship development in Uasin Gishu County. Items that were measured on a five point Likert-Type scale ranging from 1 being “Strongly Disagree” to 5 being “Strongly Agree”. Means of between 3.44 - 3.9706 and standard deviations of between 0.62365- 0.91471 were registered. The study findings therefore revealed that majority of the respondents agreed that MFIs saving services had helped improve on growth and expansion of microenterprises due to wealth of accumulation to a great extent (3.9706). They further indicated that MFI saving services had helped bring down interest chargeable on loans (3.8676). On the contrary, the findings revealed that majority of the respondents were moderate that saving services had helped improve on marginal propensity of people to save (3.44). The findings are as presented in Table 4.2.

**Table4.2.** *Saving Services*

<b>Lending</b>	<b>Mean</b>	<b>Std Deviation</b>
MFIs saving services have helped improve on marginal propensity of the people to save.	3.44	.59777
MFIs saving services have helped improve on growth and expansion of microenterprises due to wealth accumulation.	3.9706	.59612
MFIs saving services have helped people improve on their saving programs.	3.6176	.73107
MFIs saving services have helped people in managing liquidity at their households.	3.6176	.68775
MFIs saving services have helped in managing frequent cash inflows.	3.6176	.68279
MFIs saving services have helped cushion people against familiar risks such as illness, theft, job losses etc.	3.71	.793
MFIs saving services have helped bring down interest chargeable on loans.	3.8676	.91471

#### Lending Services

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

**Table4.3.** *Lending Services*

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

### Training and Education

Respondents were required to indicate their level of agreement with various MFIs training and education services on entrepreneurship development in Uasin Gishu County. Items that were measured on a five point Likert-Type scale ranging from 1 being “Strongly Disagree” to 5 being “Strongly Agree”. Means of between 3.1912 - 3.8529 and standard deviations of between 0. 65254 - 0. 93453 were registered. The study findings therefore revealed that majority of the respondents agreed that MFIs training and education services had helped improve people attitude towards microenterprises (3.8529). Further the findings revealed that MFIs trainings and education services had helped impart widespread knowledge to people on how to manage loans (3.7794). However majority of the respondents were moderate that MFIs training and education services had enhanced efficient management of microenterprises (3.4559). The findings are as presented in Table 4.4.

**Table4.4.** *Training and Education*

Description	Mean	Std Deviation
MFIs training and education services have enhanced efficient management of microenterprises.	3.4559	.78451
MFIs training and education services have helped improve people attitude towards micro enterprising.	3.8529	.78100
MFIs training and education services have helped improve on performance ii undertaking tasks.	3.3529	.89384
MFIs training and education services have made it possible for use of new technology among microenterprises.	3.1912	.93453
MFIs training and education services have helped microenterprises drive down the cost of operations.	3.7353	.65254
MFIs training and education services have helped impart widespread knowledge to people on how to manage loans.	3.7794	.76968

### Consultancy Services

Respondents were required to indicate their level of agreement with various MFIs consultancy services on entrepreneurship development in Uasin Gishu County. Items that were measured on a five point Likert-Type scale ranging from 1 being “Strongly Disagree” to 5 being “Strongly Agree”. Means of between 3.7647 - 3.8971 and standard deviations of between 0. 67177 - 0. 73586 were registered. The study findings therefore revealed that majority of the respondents agreed that MFIs consultancy services had provided microenterprises with fashionable management knowledge and techniques. Equally the research findings revealed that majority of the respondents were of the opinion that MFIs consultancy services had helped microenterprises with appropriate remedies on emerging problems. However, MFIs consultancy services changing evolution of business thinking was rated the least at 3.7353 as presented in Table 4.5.

**Table4.5.** *Consultancy Services*

Description	Mean	Std Deviation
MFIs consultancy services have led to rapid expansion of microenterprises.	3.8676	.73586
MFIs consultancy services have provided microenterprises with fashionable management knowledge and techniques.	3.8971	.69411
MFIs consultancy services have helped microenterprises with appropriate remedies on emerging problems.	3.8971	.59612
MFIs consultancy services have microenterprises with new organizational forms and strategies.	3.7647	.67177
MFIs consultancy services have helped microenterprises in evolution of business thinking.	3.7353	.65254

### Entrepreneurship Development

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

helped improve on low incomes (3.8382) to a great extent. However majority of the respondents maintained that MFIs services had helped low level of social welfare (3.5294) as presented in Table 4.6.

**Table4.6.** *Entrepreneurship Development*

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

### Regression Analysis

The multiple linear regression analysis models the relationship between the dependent variable which was entrepreneurship development and the independent variables which were saving services, lending services, training and education services and consultancy services. The coefficient of determination (R<sup>2</sup>) and correlation coefficient (R) shows the degree of association between entrepreneurship development and MFIs services.

The research findings indicated that there was a very strong positive relationship (R= 0.852) between the variables. The study also revealed that 72.7% of entrepreneurship development in Uasin Gishu County could be explained by MFIs services under study.

From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain teacher retention. The findings are as shown in the Table 4.7.

**Table4.7.** Model Summary

R	R Square
.852	.727

Table 4.8 shows the results of ANOVA test which revealed that the combined independent variables have significant effect on entrepreneurship development. This can be explained by high F values (8.746) and low p values (0.003) which are less than 5% level of significance.

**Table4.23.** ANOVA

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

**Table 4.9.** shows the results of regression coefficients which reveals that a positive effect was reported for all the MFIs service under study.

**Table4.9.** *Coefficients*

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	4.441	1.820		2.440	.059
Saving services	.253	.244	.323	1.039	.047
Lending services	.266	.254	.310	.048	.034
Training and education	.147	.358	.172	.410	.049
Consultancy services	.136	.232	.157	.587	.053

From this study it was evident that at 95% confidence level, the variables produce statistically significant values for this study (high t-values,  $p < 0.05$ ). A positive effect is reported for all the variables under study hence affecting entrepreneurship development in Uasin Gishu County positively. The results of the regression equation below shows that for a 1- point increase in the MFIs services, entrepreneurship development in Uasin Gishu County is predicted to increase by 4.441, given that all the other factors are held constant. The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

$$Y = 4.441 + 0.253X_1 + 0.266X_2 + 0.147X_3 + 0.136X_4$$

Where

$\beta$  is a correlation coefficient

Y= Entrepreneurship development

X<sub>1</sub>= Saving services

X<sub>2</sub>= Lending services

X<sub>3</sub>= Training and education

X<sub>4</sub>= Consultancy services

The findings therefore revealed that lending services, saving services, training and education and consultancy services respectively affect entrepreneurship development in Uasin Gishu County.

## **FINDINGS AND DISCUSSIONS**

### **Summary of Findings**

The study sought to establish the effect of microfinance services on entrepreneurship development in Uasin Gishu County. Microfinance services considered ranged from saving services, lending services, training and education services and consultancy services.

#### **Effect of Microfinance Saving Services on Entrepreneurship Development**

The finding of the study revealed that MFIs savings services influenced entrepreneurship development in Uasin Gishu County. The findings revealed that majority of the respondents agreed that MFIs saving services had helped improve on growth and expansion of microenterprises due to wealth accumulation to a great extent. MFIs saving services had also helped bring down interest chargeable on loans. Results of the inferential statistics such as unstandardized regression coefficients show a positive effect on entrepreneurship development. This further indicates that microfinance saving services had a significant effect on entrepreneurship development as indicated by the low p values.

#### **Effect of Microfinance Lending Services on Entrepreneurship Development**

The finding of the study further revealed that MFIs lending services influenced entrepreneurship development in Uasin Gishu County. The findings revealed that majority of the respondents agreed that MFIs lending services had helped microenterprises venturing into business. The findings further revealed that MFIs lending services had helped microenterprises improve their business through innovation. Results of the inferential statistics such as unstandardized regression coefficients show a positive effect on entrepreneurship development. This further indicates that microfinance lending services had a significant effect on entrepreneurship development as indicated by the low p values.

#### **Effect of Microfinance Training and Education Services on Entrepreneurship Development**

The finding of the study further revealed that MFIs training and education services influenced entrepreneurship development in Uasin Gishu County. The findings revealed that majority of the respondents agreed that MFIs training and education services had helped improve people attitude towards microenterprises. Results of the inferential statistics such as unstandardized regression coefficients show a positive effect on entrepreneurship development. This further indicates that microfinance training and education services had a significant effect on entrepreneurship development as indicated by the low p values.

#### **Effect of Microfinance Consultancy Services on Entrepreneurship Development**

The finding of the study further revealed that MFIs consultancy services affected entrepreneurship development in Uasin Gishu County. The findings revealed that majority of the respondents agreed that MFIs consultancy services had provided microenterprises with fashionable management knowledge and techniques. Equally the research findings revealed that majority of the respondents were of the opinion that MFIs consultancy services had helped microenterprises with appropriate

remedies on emerging problems. Results of the inferential statistics such as un standardized regression coefficients show a positive effect on entrepreneurship development. This further indicates that microfinance consultancy services had a significant effect on entrepreneurship development as indicated by the low p values.

### **Conclusions**

The objective of this study was establishing the effect of microfinance services on entrepreneurship development in Uasin Gishu County. The study findings indicate that there is a significant positive relationship between the variables namely: savings services, lending services, training and education services and consultancy services. The findings also indicate that lending services had the greatest significant effect on entrepreneurship development than savings services, training and development services and consultancy services respectively.

### **Recommendations**

This study is a justification that microfinance services significantly affect entrepreneurship development. With due regard to the ever increasing desire to have high entrepreneurship development in various Counties in Kenya there is need to invest in various strategies. This should be done in a manner in which all the stakeholders are happy. This ensures that they are incorporative hence acceptable, accessible, ethically sound, have a positive perceived impact, relevant, appropriate, innovative, efficient, sustainable and replicable. This therefore calls for establishing strategies that meet employees’ needs. Specifically the study recommends:

1. The management of financial institutions to develop saving products which enable entrepreneurs to save so as to access credit which they can use to expand their business ventures. This will go a long way in improving their marginal propensity to save hence economic empowerment.
2. Microfinance institutions to train entrepreneurs on proper business practices to avoid business failure. Specifically they should train entrepreneurs on proper finance and business management practices so as to professionally manage their businesses.
3. Microfinance institutions to organize forums where entrepreneurs are enlightened on new business concepts and where they can exchange ideas.
4. Microfinance institutions to invest in management consultancy services. This will go a long way in empowering microenterprises with organizational skills and strategies.

### **Recommendations for Further Research**

This study is a milestone for future research in this area, particularly in the finance sector. First, this study focused on the MFIs in Uasin Gishu County and therefore, generalizations cannot adequately extend to other Counties. Based on this fact among others, it is therefore, recommended that a broad based study covering all Counties in Kenya be done to find out the effect of MFIs service on entrepreneurship development. It is also suggested that future research should focus on MFIs services and performance of microenterprises.

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