



**INCOME EFFECT OF GROWTH OF MICRO ENTERPRISES ON POVERTY LEVEL IN IKOLOMANI SUB-COUNTY,  
KAKAMEGA COUNTY; KENYA**

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**ABSTRACT**

*The Kenyan government, in line with the Medium Term Plan of Vision 2030, chose to support entrepreneurship development through the start-up and growth of youth and women enterprises. The government of Kenya also devoted herself to attaining the target of reducing significantly, the number of Kenyans currently living below the poverty line. Despite poverty intervention studies and their recommendations, poverty remains a challenge, indicating that there is still more that needs to be done. Given this scenario, the main objective of this study was to determine the Income Level effect of growth of micro enterprises on poverty levels in Ikolomani sub-county, Kakamega County; Kenya. The study adopted descriptive research design and the target population of the study consisted of proprietors of micro enterprises in Ikolomani Sub-county, Kakamega County; Kenya. The study applied stratified sampling technique. A self-administered questionnaire was used as an instrument of primary data collection. Descriptive and inferential statistics was computed by using SSPS software for determination of required justifications of the objectives of the study; on consideration of descriptive statistics, mean and standard deviation were computed. On consideration of inferential statistics correlation analysis was done to measure the strength between variables while regression analysis was carried out to show the relationship between variables. The results of the study indicated Income level effects of growth of micro enterprises had an influence on poverty level. The study recommended proprietors to embrace the relevance of understanding Income as a Socio-Economic effect on poverty level since such socio-economic effects have an influence on poverty levels. However further studies could be done by applying other socio-economic effects and different analytical methods.*

**Key words:** *Income Level, Social Economic Effects, Poverty Level*

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## INTRODUCTION

Poverty reduction of any country can contribute grossly to the improvement of people's lives and economic growth (Tefera, 2013). Micro and small enterprises constitute one of the packages and instruments to help accelerate economic growth, socio-economic progress and the overall reduction of poverty of a nation. They make a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty (Diriba, 2013). Micro and small enterprises are seen as the most important alternative sector in fostering socio-economic developments and reduction of poverty in both developed and developing countries. Micro enterprises form a key sector to achieve the goal of poverty reduction through employment creation, improve savings and wealth and improvement of living standards. Since poverty and unemployment rate are relatively higher in developing countries than developed countries, Micro enterprises may play a very important role in poverty reduction (Siyum, 2015). Additionally, Micro enterprises can play an important role in improving the socio-economic condition of the poor by enabling them to generate their income access for socio-economic merits such as education, better health condition, good housing and nutrition (Ephrem, 2010).

Globally, the small-scale industries are well known for their immense contributions to poverty reduction, development process and as engines of economic growth, critical segment of the manufacturing sub-sector, effective strategy for tackling unemployment, diversifying output, achieving trade and balance of payment (Umogbai *et al.*, 2016). Across high, middle and low-income countries, micro and small enterprises, including the self-employed, constitute the largest share of the private-sector enterprises and account for the bulk of employment at least in low and medium income countries (Ayyagari *et al.*, 2014). Over 35% of workers in developing economies, and the majority of workers in low-income countries, are self-employed (Gindling & Newhouse, 2014). Even

though a large share of these Micro enterprises are informal, they are also accountable for the greater part of employment creation in middle and low-income countries (Ayyagari *et al.*, 2014). However, data suggest that in high-income countries large firms have the highest share of employment, followed by medium-sized firms and small firms (International Finance Corporation, 2013).

Micro and small enterprises are considered to be critical in kick starting broad-based growth and enhance employment creation, especially in developing countries that aspire to have sustainable economic growth and poverty alleviation. For instance, according Bereket (2010), the income contribution of the micro and small enterprises sector in Tanzania was about 25 percent of the GDP, and they consist of more than one million enterprises engaging three to four million persons, that are about a quarter of the country's labor force. A study conducted by Amare and Raghurama (2017) in Ethiopia reveal that due to limited growth in employment prospects in the public sector and declining absorptive capacity of the agricultural sector, the numbers of new job seekers are turning to micro and small enterprises. The Ethiopia government is focusing on the micro and small enterprises basically because of their contribution in reducing poverty and unemployment becomes better than other sectors. The government has been supporting their micro enterprises extensively through many different programs, with subsidized credit schemes, financial support, creating marketing link, providing free showing area, free production and operation area, promotion among others.

A report published by the South African Small Enterprise Development Agency (2013) states that 60% of all small businesses fail within the first year of operation. According to the report, although the South African Department of Trade and Industry provides incentives and support to small and medium sized enterprises, the degree of support provided is grossly inadequate. As a result, small and medium sized enterprises are seen failing in a

number of areas of specialization (South African Small Enterprise Development Agency, 2013). The South African Government has invested heavily in the MSE sector with a view to foster economic growth, job creation and the alleviation of poverty at the national level. The South African Government has an agreement with the European Union where the European Union donates 550 million Rand for establishing a risk capital fund for small and medium-sized enterprises (South African Small Enterprise Development Agency, 2013).

In Kenya, employment within the MSEs sector increased from 4.2 million persons in 2000 to slightly over 7 million persons in 2014. This accounts for 74.2% of the total persons engaged in employment. The sector contributes up to 18.4% of the country's GDP and is not only a provider of goods and services but also a driver in promoting competition, innovation and poverty reduction (Republic of Kenya, 2014). Government of Kenya (2004) confers that micro and small enterprises sector accounted for 30% of the GDP and for over 90% (about 500,000) of new jobs created outside agriculture in 2003. In view of this, start-up and growth of micro enterprises for employment creation and enhanced household well-being is a key and explicit assumption of poverty alleviation strategies. The central role of MSEs focuses on employment, industrial transformation, and poverty reduction (Moyi & Njiraini, 2005). Micro and small enterprises employ about 74.2% of the Kenyan workforce contributing to about 18.4% of the country's GDP (Republic of Kenya, 2014).

### **Statement of the problem**

The Kenyan government, in line with the Medium Term Plan (2008-2012) of Vision 2030, chose to support entrepreneurship development through the start-up and growth of youth and women enterprises. The government of Kenya also devoted herself to attaining the target of reducing significantly the number of Kenyans living below the poverty line (Republic of Kenya, 2008). Despite the effort and interventions by the Kenya government, poverty rates have continuously remained high (SID,

2013). World Bank (2013) in its global monitoring report, indicated that Kenya was likely to attain Sustainable Development Goal (SDG) one, on poverty and hunger only in 2050. In the Second Medium Term Plan of the Kenya Vision 2030, poverty was considered a threat to human life in spite of the policy initiatives used (Republic of Kenya, 2013). Furthermore, Kakamega County was ranked top in contribution to national poverty in Kenya (Republic of Kenya, 2014).

Some of the studies that have been conducted have mainly been on determinants of poverty (Mwabu, Masai, Gesami, Kirimi, Ndeng'e, Kiriti, Munene, Chemngich & Mariara, 2000; Mwabu, Alemayehu, Nick, & Mwangi, 2001). Other studies have explored policy initiatives on poverty alleviation; political economy of poverty reduction; poverty reduction approaches, changes in incomes and poverty among others (Cuangara & Hanlon, 2011; Nyamboga, Nyamweya, Sisia & Gongera, 2014; Ranguma, 2014; Wambua 2013). Despite these studies and their recommendations, poverty levels in Kenya have remained high, indicating that there is still more that needs to be done. This study therefore seeks to investigate whether Income Level as a socio-economic effect of growth of micro enterprises affect poverty levels in Ikolomani sub-county, Kakamega County; Kenya.

### **Objective of the Study**

The main objective of this study was to determine Income Level effect of growth of micro enterprises on poverty levels in Ikolomani sub-county, Kakamega County; Kenya. The study was guided by the following hypothesis;

- **H<sub>01</sub>:** There is no relationship between Income Level effect of growth of microenterprises and poverty levels in Ikolomani sub-county, Kakamega County; Kenya

## **LITERATURE REVIEW**

### **Theoretical review;**

### **Firm Resource Based Development Theory**

The central tenets of the RBV are path dependence and firm heterogeneity (Lockett 2005; Lockett and Thompson 2001). The RBV is a theory about the nature of firms, as opposed to theories such as transaction cost economics which seeks to explain why firms exist. As such, the RBV requires minimal limiting assumptions about the nature of strategic behaviour. In effect, the RBV is a statement about how firms actually operate. The minimalistic nature of the RBV's assumptions for example its two central tenets makes formalization difficult. Ultimately, the RBV's message that firms' performance differs because of different resource endowments is probably incapable of falsification. However, theoretical insights have been developed from these central tenets; Resources and Performance: Sustainable Competitive Advantage, employing the resource as the unit of analysis, the theory seeks to explain the extent to which a firm may be able to sustain a position of competitive advantage. Sustainable competitive advantage is based on the ownership of firm-specific resource(s) that, following Barney (1991), has the following attributes: it must be valuable; it must be rare; it must be inimitable; it must be non-substitutable. These conditions are what Barney (1991) terms VRIN – valuable, rare, inimitable and non-substitutable.

Valuable resources can be used to exploit opportunities and or neutralize threats in a firm's environment. Rare resources are those that are limited in supply and not equally distributed across a firm's current and potential competition. Inimitability refers to the extent to which resources are difficult to replicate by other firms, which may be due to factors such as social complexity (Dierickx and Cool 1989), causal ambiguity and specific historical circumstances (Barney 1991). Non-substitutability of resources implies that one resource cannot be simply replaced (or substituted) by another one.

Thus, the RBV at its most basic offers an interpretation of the existence of profits in equilibrium based on firm heterogeneity. If that

were all it offered, it would be essentially trivial. It would amount to a statement that firms differ in performance because they differ in attributes. True but hardly informative! It is scarcely surprising that critics of the RBV have accused its proponents of tautological reasoning by attributing the generation of competitive advantage to possession of those resources whose own value reflects these scarcity rents. However, contributors to the RBV literature have sought to generate testable hypotheses concerning those characteristics of such inputs that are likely to render them strategic resources in the sense of being a source of sustainable rents.

Peteraf and Barney (2003), among others, begin with the assumption of resource heterogeneity and then consider which (if any) of a given collection of resources satisfy the VRIN conditions outlined above. They point out that resources differ in their impact on the firm's ability to generate cost or differentiation advantages, and hence performance. Moreover, if the cost of a resource reflects the full potential rents it may generate, it cannot, by definition, be a source of a competitive advantage.

A resource market imperfection may be exogenous, in the sense that it results from the firm's possession of some superior physical, organizational or intangible resource that has been accumulated as a result of the firm's unique historical evolution. Alternatively, it may be endogenous, in the sense that it results from a conscious strategic decision by the firm's managers. Such a decision might apply to the acquisition of a resource to facilitate the firm's own production and or to secure its advantage over a rival. For example, a department store corporation's decision to become the 'anchor' for a new shopping mall complex is both a move to secure a resource (market access) for the firm and a means of pre-empting a rival. This parallels the distinction between structure and conduct in the SCP paradigm in industrial economics. Here market structure has been traditionally treated as exogenously determined by the underlying industry characteristics. Firm conduct, on the other hand, is

the endogenous outcome of managerial decision-taking, albeit within bounds set by structural characteristics. Thus, collusion, for example, which is usually considered to be facilitated by high concentration, is imperfectly predictable without further modeling.

In acknowledging that resources are tied ‘semi-permanently’ to the firm, in the phrase of Wernerfelt (1984), the RBV recognizes that, in the short run, the resource set confronting particular managers is largely exogenously determined. However, it also concedes a role for the manager in perceiving opportunities, matching these to the available resources and, within limits, augmenting the latter with such additional resources as are necessary to implement its strategy. Hence for the purpose of the study this theory suits the study variables; Adoption Technology, Employment Status, Income Level and Education Level.

### Capabilities Approach

Capabilities Approach has been described by Robeyns (2005) as a broad normative framework for the evaluation and assessment of individual well-being and social arrangements, the design of policies, and proposals about social change and poverty alleviation in society. Well-being and poverty are best understood in terms of capabilities; that is, a person’s ability to do and to be the things he/she has reasons to value (Sen, 2000). Therefore, the higher the level of a person’s capabilities, the higher is the level of his/her well-being. The capabilities approach can be used to evaluate several aspects of people’s well-being, such as inequality, poverty, the well-being of an individual or the average well-being of the

members of a group. It can also be used as an alternative evaluative tool for social cost–benefit analysis, or as a framework within which to design and evaluate policies, ranging from welfare state design in affluent societies, to development policies by governments and non-governmental organizations in developing countries (Robeyns, 2005).

The capability approach is not necessarily a theory that can explain poverty, inequality or well-being; but instead, it provides a tool and a framework within which to conceptualize and evaluate these phenomena. The capabilities approach draws on an account of what it means to be a human being. It conceptualizes human beings as being able to convert resources into functionings (functionings include working, resting, being literate, being healthy, being part of a community, being respected, among others) and the ability of humans to convert resources into functionings differs, depending on personal heterogeneities, social and environmental circumstances (Voget-Kleschin, 2013).

The capability approach has a key analytical distinction between the means and the ends of poverty and well-being, with the ends having intrinsic importance while means are instrumental to reach the goal of increased well-being, justice and development (Robeyns, 2005). The theory recognizes the influence of social and environmental conditions and conceives capabilities as the solution for evaluating quality of life for human beings (Voget-Kleschin, 2013).

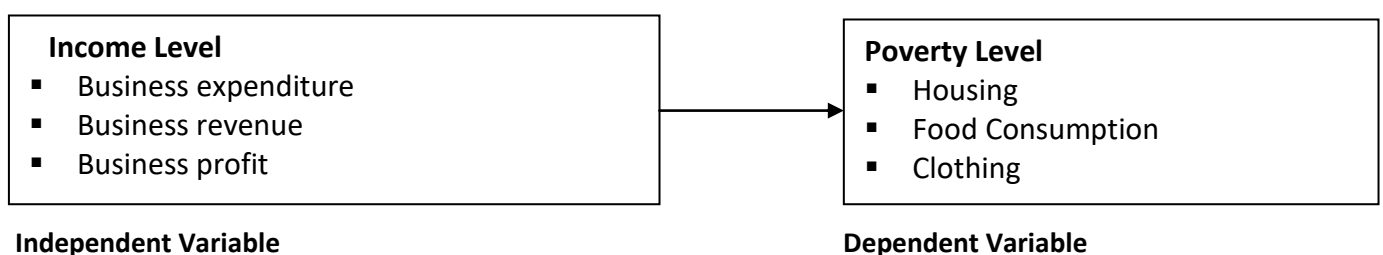


Figure 1: Conceptual Framework

Poverty is classically framed as the lack of income, and international poverty rates count billion people earning less than \$2 a day, and over 1 billion earning less than \$1 a day (World Bank, 2010). It is interesting to note that the determinants of poverty are based on income, but the measures of poverty are typically based on household expenditure surveys, due to the difficulties of measuring income from informal sources (Sandefur, Serneels & Teal, 2006). Around the world, it is clear that one of the most effective ways to raise incomes is the creation of more, and more stable, jobs. While over a billion people earn less than \$1 a day, and over 2.5 billion earn less than \$2 a day, it is not only the level of income, but the variability of income that characterizes the lives of the poor (Banerjee & Duflo, 2007).

Uncertainty of regular income is a familiar characteristic of many sources of employment – farm earnings are highly dependent on weather and commodity prices, casual labor jobs are the first to be cut during difficult times, and the overall profits of micro-enterprises are extremely low in the long run (Banerjee & Duflo, 2011). The role of MSEs in poverty alleviation and development involves more than just increasing percapita output and income; it involves initiating and constituting change in the structure of business and society (Hisrich, Peters & Shepherd, 2008). There are merits to growth of micro enterprises; new business ventures facilitate the delivery of new products and services, which make local economies more robust and resilient (Banerjee & Duflo, 2007). Women entrepreneurs are also more likely to list social impact as a goal of their business (Terjesen & Elam, 2012).

Yusuf and Albanawi (2016) state that entrepreneurship is the key to economic growth, and it is responsible for the expansion and promotion of all types of productive activities in the world economy. The localized effect of entrepreneurship is to uplift the level of a society where it creates job opportunity for the local community, utilizes the local resources and raw material, reduces poverty and creates wealth, and

has the ability to identify socio-economic needs and finally benefits the society (Tersoo, 2013). A recent study by Zehir et al. (2016) found that entrepreneurial orientation even plays a mediating role between strategic human resource management and firm performance in terms of financial and employee performances. Another study (Latif, Abdullah, & Jan, 2016), which looked at the role of entrepreneurial orientation in commercialization of university research products found that entrepreneurial orientation improves the rate of commercialization.

## **METHODOLOGY**

Descriptive research survey design was used to determine an association between the conceptualized independent and dependent variables as shown in the study's conceptual model. The study targeted 1930 respondents of Ikolomani Sub County Licensed traders. In this study sampling frame consisted of Traders of Ikolomani Sub County, Kakamega County; Kenya. The study sample size was determined using Taro Yamane's proportional sampling technique formula. The importance of this expression is that it gives a researcher the required sampling interval for a given population and a known sample. Therefore a sample size has been calculated as per Taro Yamane's proportional sampling technique formula. This study therefore used a sample population of 332 respondents for data collection. This sample size is considered sufficient since Mugenda and Mugenda (2003) proposes that a sample of 10 percent of population is considered the minimum for a descriptive research. The sample size was calculated as per Taro Yamane's proportional sampling technique formula. This study therefore used a sample population of 332 respondents for data collection. Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. These questionnaires were structured and designed in multiple choice formats. Section one introduced the researcher, topic of research and its purpose to the respondent.

Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS) version 24 software. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was also organized into graphs and tables for easy reference.

Further, inferential statistics such as regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The linear and multiple regression plus correlation analyses were based on the association between two (or more) variables. SPSS version 24 is the analysis computer software that was used to compute statistical data.

Study conceptualized Regression Model;

$$Y = \beta_0 + \beta_1 X_3 + \epsilon$$

Y = Poverty Level

$\beta_0$  = Constant

$X_1$  = Income Level

$\{\beta_1\}$  = Beta coefficients

$\epsilon$  = the error term

## FINDINGS AND DISCUSSIONS

The study involved 332 questionnaires being dispatched for data collection, 279 questionnaires were returned completely filled, representing a response rate of 84% which was good for generalizability of the research findings to a wider population. The high response rate was achieved because the researcher patiently waited for respondents to completely fill the questionnaire before picking them.

## Descriptive Statistics

Most respondents agreed (10.8%) and strongly agreed (10.8%) that the small businesses provide income in form of rent to the owners of the plot; while 10.8% agreed and 14.3% strongly agreed that the small businesses support the government through the payment tax.

More so, (19.7%) and (7.2%) of respondents agreed and strongly agreed respectively that the small businesses empower the locals economically through purchase of raw materials and (19.4%) agreed and (7.2%) strongly agreed that the growth of business enhances value addition; hence, increasing revenue for the businesses either to plough back or earned by owners in terms dividend. Furthermore, most respondents agreed (10.8%) and strongly agreed (14.3%) that the non firm businesses enhances revenue stream for the households. Lastly, most respondents agreed (14.3%) and strongly agreed that generally, the Revenue for non firm business is predictable. Uncertainty of regular income is a familiar characteristic of many sources of employment – farm earnings are highly dependent on weather and commodity prices, casual labor jobs are the first to be cut during difficult times, and the overall profits of micro-enterprises are extremely low in the long run (Banerjee & Duflo, 2011). The role of MSEs in poverty alleviation and development involves more than just increasing percapita output and income; it involves initiating and constituting change in the structure of business and society (Hisrich, Peters & Shepherd, 2008).

## Inferential Statistics

### Linear influence of Income Level on Poverty

This tested the direct influence of Income level on Poverty in Ikolomani Sub County, Kakamega County; Kenya. The results are shown table 1.



**Table 1: Direct influence of Income Level on Poverty**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.676 <sup>a</sup>	.457	.449	.90463	.457	63.037	1	278	.000
ANOVA <sup>b</sup>									
Model		Sum of Squares	Df	Mean Square	F				Sig.
1	Regression	51.587	1	51.587	63.037				.000 <sup>a</sup>
	Residual	61.377	278	.818					
	Total	112.964	279						
Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients	Std. Error	Beta	T				Sig.
1	(Constant)	1.062	.304		3.826				.000
	Income Level	.756	.095	.676	7.940				.000

a. Dependent Variable: Poverty

From table 1, the model summary showed that  $R^2 = 0.457$ ; implying that 45.7% variations in the Poverty Level of Ikolomani Sub-County, Kakamega County; Kenya is as a result of Income factor, however other factors not in the study model accounts for 54.3% of variation in Poverty Level of Ikolomani Sub-County, Kakamega County; Kenya. Further, coefficient analysis shows that Income of growth of micro enterprises has positive significant influence on Poverty Level of Ikolomani Sub-County, Kakamega County; Kenya,  $\beta = 0.756$  (0.095); *at*  $p < 0.01$ . This implies that a single improvement in effective Income Level will lead to 0.756 unit increase in the Poverty Level of Ikolomani Sub-County, Kakamega County; Kenya. Therefore, the linear regression equation is;

$$Y = 1.062 + 0.756X_3, \text{ Where; } Y = \text{Poverty Level, } X_3 = \text{Income}$$

Study hypothesis ( $H_{01}$ ) First, study hypothesis one ( $H_{01}$ ) stated that Income Level does not significantly influence Poverty Level of Ikolomani Sub County, Kakamega County; Kenya. However, regression results indicate that Income Level significantly influence Poverty Level of Ikolomani Sub County,

County Government of Kakamega; Kenya ( $\beta = 0.756$  (0.073) at  $p < 0.01$ ). Hypothesis one was therefore rejected. The results indicated that that a single improvement in effective Income Level will lead to 0.756 unit increase in the Poverty Level of Ikolomani Sub County, in the County Government of Kakamega ; Kenya.

### CONCLUSIONS AND RECOMMENDATIONS

This tested the influence of Income level of growth of micro enterprises on Poverty of Ikolomani Sub-County, Kakamega County; Kenya. The study found that Income level is very important in every situation of an economy; hence, Income had an impact on Poverty Level.

The study findings support other researchers who found that Income is part of the broader understanding of alleviation of poverty. Considering poor income levels in any economy results into inequality of resource sharing among the citizens hence the factor is key for poverty level change.

Income level of growth of micro enterprises has a significant effect on Poverty Level, this concurs with earlier scholars too. The consideration is that

income gives a reflection of poverty level, with more income the less the poverty level within the citizens.

Income Level of growth of micro enterprises should be embraced since any change in the income level has an effect on poverty level within the livelihoods. Income level is key as a socio-economic factor since without income escalation of poverty increases.

#### **Areas for further research**

First, a similar study can be done on other areas of other counties for the purpose of finding out how variables behave in other different areas. Secondly, a similar study can be done on various counties but by application of other different socio-economic effects apart from those used in this study.

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