

**RELATIONSHIP BETWEEN FINANCIAL MOTIVATION AND POVERTY AMONG MICRO ENTERPRISE OWNERS IN HOMA-BAY SUB- COUNTY, KENYA.**

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**ABSTRACT**

This paper sought to determine the relationship between Financial Motivation and Poverty among the Micro Enterprise Owners (MEOs) in Homa-Bay Sub-County, Kenya. The Homa-Bay County Strategic Plan 2010-2015 reports a poverty level among the MEOs at 77.49% against the national average of 52% despite the Financial Motivation opportunities available to them. This study adopted survey research design. Population of the study comprised 1200 MEOs in Homa-Bay Sub County in the period 2010-2015. Stratified random sampling was done to get a sample size of 240 MEOs. Questionnaires were used to collect the primary data. The secondary data were obtained from the Homa Bay County Trade and Development Office. Data was analyzed by Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM) using regression weights and Model Fit indices. Findings revealed that there was a positive relationship between Financial Motivation and poverty among the MEOs. It is recommended that the MEOs should undergo financial education to enlighten them on how to manage the financial resources of their Micro Enterprises. The study results will be of importance to policy makers, academicians, micro-credit practitioners, donors and MEOs.

## Introduction

Empirical studies (Benzing, Chu and Kara 2009; Kabeer 2004, Cook et al 2001, Karlan and Zinman 2010, Ferdous 2007; Shabir and Gregorio 1996) show mixed results on the relationship between Financial Motivation and poverty alleviation among the MEOs. On one hand, the studies reveal that when MEOs have access to Micro-Credit services or Financial Motivation, their business operations are always enhanced and this alleviates poverty. Studies by (Kuratko, 2003, Cook et al 2001 Ferdous, 2007 Benzing, Chu & Kara 2009) spell out that Micro credit programmes like FINCA, ACCION and Grameen Bank in rural Bangladesh have made remarkable success in availing credit to financially motivate the poor entrepreneurs in Asia and Latin America, hence changing their lives and alleviating poverty.

Studies by (Cook et al 2001; Ferdous, 2007; Shabir & Gregorio 1996; Benzing, Chu & Kara 2009; Kabeer 2004 Karlan & Zinman, 2010) stressed that Financial Motivation has enabled the small business owners in the developing countries to enjoy banking services that was not possible earlier, due to lack of collateral security, steady employment or verifiable credit history. Furthermore, a study by Kabeer (2004) reveal that when MEOs have access to Micro-Credit services or Financial Motivation their role in decision-making and business operations are always enhanced.

On the other hand, some studies (Karlan and Zinman 2010; Ferdous 2007; Kabeer 2004) point out that Micro-Credit or Financial Motivation should not be treated as a remedy, but as a drug that can be prescribed to Micro Enterprise Owners. The studies reveal that if used improperly, Micro-Credit or Financial Motivation among the MEOs, can harm business operations and have unintended negative consequences resulting to poverty among the MEOs. Cameron (2005) and Harper (2008) emphasize that even when the poor MEOs enjoy access to financial services; their empowerment as a result of those services is not guaranteed. They note that while a regular financial institution may charge 10-15% interest rates on a loan depending on credit history of the borrower, micro-credit institutions charge interest rates of 40-60%. Murdoch and Haley (2002) affirm that such high interest rates can discourage the poor MEOs from borrowing and hence the operations of their businesses may not be improved. This may lead to poverty among the MEOs.

Studies by (Cameron 2005; Murdoch and Haley 2002; Harper 2008) found in a study of thirteen Micro-Credit Institutions in seven developing countries in Asia, Africa and Latin America that micro-credit programs, which targeted higher income households, had a greater impact on household income. Those below the poverty line were not assisted much and the poorest were somewhat negatively affected. Studies by (Karlan and Zinman 2010, Cameron 2005 and Kuratko, 2003) put it that even when the poor MEOs enjoy access to financial services, their empowerment as a result of those services is not guaranteed.

The studies by (Shabir & Gregorio, 1996; Benzing, Chu & Kara, 2009) have established the efforts made by the development agencies and donors in channeling their funds to micro-credit institutions in Kenya for onward lending at subsidized rates to financially motivate the poor MEOs. The studies give the general view of how the funds have been channeled without finding out whether this move has contributed positively or negatively to the financial well being of the MEOs. It is not known whether the empowerment of the MEOs as a result of the financial services have yielded any positive impact towards poverty alleviation or not.

Available studies reveal that when MEOs have access to micro-credit services or Financial Motivation, their business operations are always enhanced and this alleviates poverty. Other studies on the other hand reveal that when the poor MEOs enjoy access to financial services; their empowerment as a result of those services is not guaranteed. Successful businesses require people with some entrepreneurial ability and not Financial Motivation alone. If used improperly, micro-credit or Financial Motivation among the MEOs may harm some business operations and have unintended negative consequences resulting to poverty among the MEOs. Available studies have put more emphasis on the access of financial services by the MEOs. However, little is known about the relationship between Financial Motivation and Poverty among the MEOs.

### **Research Objective**

The objective of the research was to determine the relationship between Financial Motivation and Poverty among the Micro Enterprise Owners in Homa-Bay Sub County, Kenya.

### **Methodology**

#### **Research Design**

This study adopted a survey research design. It was specifically intended to determine the relationship between Financial Motivation and Poverty among MEOs in Homa-Bay Sub County, Kenya. This design is appropriate for the study since it facilitates the collection of information from a sample of a population in order to describe their characteristics as they relate to the fact (Fraenkel & Wallen, 2006). Moreover, Nachmias & Nachmias, (2009) suggest that Surveys are cost-effective and exploratory enabling the researcher to make inferences.

#### **Study Area**

This study was carried out in Homa-Bay Sub County, Kenya. Homa-Bay Sub County borders Rachuonyo Sub County to the North and Rongo Sub County to the South. It also borders Suba Sub County to the West and Kisii South Sub County to the East. The Sub County has a small shoreline of approximately 16.2 km<sup>2</sup> to the North where it borders Lake Victoria. The Sub County covers an area of 1,169.9 km<sup>2</sup> including 30.0 km<sup>2</sup> of water surface. The Sub County is divided into six administrative divisions, namely, Rangwe, Asego, Riana, Ndhiwa, Kobama and Nyarongi. The Sub County has two parliamentary constituencies namely Rangwe and Ndhiwa constituencies. Rangwe and Asego Divisions make up Rangwe constituency while Ndhiwa, Riana, Kobama and Nyarongi Divisions form Ndhiwa constituency. The Sub County has 27 trading centres and 1200 registered Micro Enterprises.

#### **Target Population**

The target population consisted of 1200 MEOs in Homa-Bay Sub County between 2014 and 2015 as per the records of the Homa-Bay County Strategic Plan 2010-2015. The business enterprises were categorised as wholesale, general retail, service and manufacturing. The MEOs were expected to be best placed to articulate issues in the study as they had the conceptual view of the enterprises (Elbana and Child, 2007), a view supported by Hambrick and Mason (1984) arguing that business strategy is shaped by perceptions and opinions of the business owners.

#### **Sample Size**

Stratified random sampling was done to select a sample size of 240 MEOs in the Sub County. Hair, et al. (2010) recommends a sample size of at least one hundred observations to achieve adequate

power in structural equation modeling. It is generally accepted that the minimum sample size to ensure appropriate use of MLE is 100. Two hundred forty (240) valid observations remained in the data set for the variables after data cleaning exercise was conducted. This sample size proves sufficient for obtaining adequate power based on the Hair, et al (2010) recommendations.

### Sampling Procedure

The target population was stratified into four different business categories and simple random procedure was employed using Yamane (1967) formula to get a sample size of 240 observations.

| <b>Business Categories</b> |             |
|----------------------------|-------------|
| Whole sale                 | 110         |
| General retail             | 936         |
| Service                    | 98          |
| Manufacturing              | 56          |
| <b>Total</b>               | <b>1200</b> |

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1200}{1 + 1200(0.05)^2}$$

$$n = \frac{1200}{4}$$

$$n = 300$$

$$n = \frac{300}{1 + 300 - 1/1200}$$

$$n = \frac{300}{1.25}$$

$$n = 240$$

Where: n= Sample size

N= Population size

e = the level of precision

### Data type and Collection Method

#### Sources of Data

To achieve the objectives of the study, both Primary and secondary data were collected. Primary data was collected using structured and unstructured questionnaires. Questionnaires were used since the study was concerned mainly with variables that could not be directly observed such as views, opinions, perceptions and feelings of the respondents. Such information is best collected through questionnaires (Jöreskog and Sörbom 1996). The target population was also largely literate and was unlikely to have difficulties responding to questionnaire items. The sample size also was large enough (240 MEOs in Homa-Bay Sub County). Given the time constraint, questionnaire was the ideal tool for collecting the primary data. Secondary data was obtained from the Homa Bay County Trade and Development Office.

### Reliability Test for Data Collection Instruments

Reliability refers to the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials. Reliability test was aimed at determining consistency and stability of the data collection instruments. Since there is little published guidance concerning how large a pilot study should be (Melody & Herztog, 2008), pilot test was conducted on 9 of the population of 1200 MEOs randomly chosen from the four categories of business enterprises.

It was ideal to test the reliability of the instruments by administering them to the pilot survey respondents twice. However, it was difficult to do this when dealing with business enterprises spread in a wide area like in this study (Sekaran, 2000). Therefore to check the reliability of the instruments in this study, Cronbach's Alpha was used (Cronbach, 1951). Alpha coefficient ranges in value from 0 to 1. The higher the score the more reliable the generated scale is. According to suggestions by Hair et al (2010), the study considered acceptable a reliability coefficient of 0.5 in Structural Equation Modelling. Successful reliability analysis was conducted for the scales measuring Financial Motivation, Poverty and Management Practice. Table 1 presents the results.

**Table 1: Cronbach's Alpha Reliability Test Results for Financial Motivation and Poverty instruments**

| Reliability test results for the instruments | Cronbach's Alpha | Number of items |
|--|------------------|-----------------|
| Financial Motivation                         | .507             | 18              |
| Poverty                                      | .886             | 3               |
| Average                                      | .697             | 21              |

#### Source: Pilot Survey Data (2014)

The Cronbach's Alpha Reliability Test Results for Financial Motivation and Poverty instruments were .507 and .886 respectively. The average Cronbach's Alpha result was .697. According to suggestions by Hair et al (2010), all the reliability coefficients were acceptable.

### Validity Test for Data Collection Instrument

Validity implies the extent to which the constructs of the study or measures in the survey instrument represent the study concept and the degree to which it is free from subjective error (Nunally, 1978). Prior to data collection, the survey instrument was reviewed for content and construct validity. In the first stage, content validity was tested by use of ten purposively chosen expert researchers and practitioners in the field of the study. They were asked to assess the extent to which the indicators sufficiently addressed the subject area based on theoretical and practical considerations (Dillman, 1978). On average, these experts agreed that the instrument addressed the research intention. Construct validity was assessed by using experienced researchers who were asked to critique the questionnaire for certainty, clarity, and appropriateness of the items used (DeVellis, 1991). The questionnaires were also submitted to the supervisors to verify clarity and relevance. Simple, clear and precise words were used in the questionnaires for ease of communication. The instruments covered all the research questions and objectives of the study. To enhance clarity and analysis, scoring for positively stated statements (statements that support the construct under investigation) was developed in a numerically descending order (5, 4, 3, 2, 1) while scoring for negatively stated statements was developed in a numerically ascending order (1, 2, 3, 4, 5).

### **Methods of Data Analysis**

Data collected through questionnaires were analyzed using Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). Confirmatory Factor Analysis (CFA) was used to determine the factor loading of the measured variables onto their respective latent constructs. Structural Equation Modeling (SEM) was used to determine the structural relationship between the latent constructs namely, Financial Motivation and Poverty. Structural equation modeling (SEM) technique was used and Analysis of Moment Structures (AMOS) statistical software analyzed quantitative data for this study. Structural equation modeling (SEM) serves purposes similar to multiple regression, but in a more powerful way by taking into account the modeling of the regression weights, measurement errors and multiple latent independents (Garson, 2010).

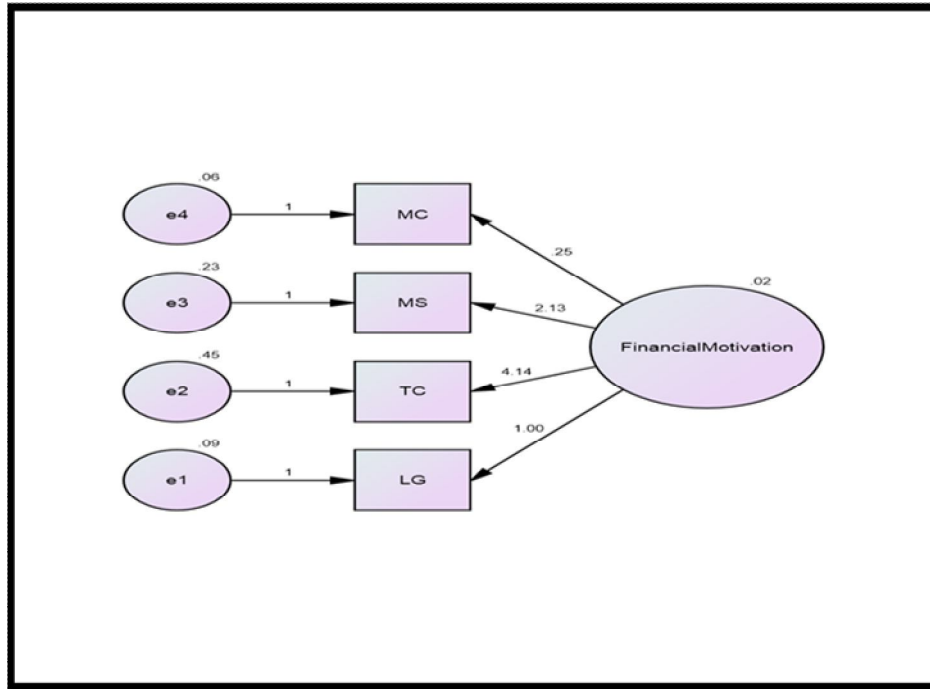
### **Goodness of Fit Indices used in the Study**

Goodness of fit Indices determine if the model being tested should be accepted or rejected. If the model is accepted, the researcher will then go on to interpret the path coefficients in the model. The choice of which goodness-of-fit measures to be used is a matter of argument among methodologists (Chou and Bentler, 1995). This study adopted relative chi-square (CMIN/DF), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI) and Root Mean Square Error of Approximation (RMSEA). The Models were considered acceptable if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 2005); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber et al, 2008).

### **Results and discussion**

To determine the relationship between Financial Motivation and Poverty among the MEOs, Confirmatory factor analysis (CFA) for both Financial Motivation as well as that of Poverty variables were done. The CFAs were done to establish the factor loading of the measured variables onto their latent constructs followed by Structural Equation Modeling (SEM), which was done to assess the structural relationship between the two latent constructs namely Financial Motivation and Poverty.

Confirmatory factor analysis for Financial Motivation as a latent construct and its observed variables are presented in Figure 1.



**Figure 1: Confirmatory factor analysis for Financial Motivation and its observed variables**  
**Source: Survey Data (2014)**

Note:

LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro- Credit, e1 to e4 are errors 1to 4.

The variables in the model were classified as observed or unobserved, and as either endogenous or exogenous. Observed, endogenous variables were Loan Guarantee, Trade Credit, Micro-Saving and Micro-Credit. Unobserved, exogenous variables were Financial Motivation, e1, e2, e3 and e4.

The model is presented in Table 1 using the estimates of regression weights.

**Table1: Estimates of regression weight for Financial Motivation variables**

|         |                      | Estimate | S.E.  | C.R.  | P    |
|---------|----------------------|----------|-------|-------|------|
| LG <--- | Financial Motivation | 1.00     |       |       |      |
| TC <--- | Financial Motivation | 4.14     | 1.294 | 3.197 | .001 |
| MS <--- | Financial Motivation | 2.13     | .600  | 3.559 | .001 |
| MC <--- | Financial Motivation | .25      | .166  | 1.497 | .134 |

**Source: Survey Data (2014)**

Note: LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro- Credit, S.E. is Standard Error, C.R. is Critical Ratio, and P is Probability of getting the corresponding Critical Ratio.

Table 1 indicates that the regression weight for Financial Motivation in the prediction of Trade Credit and Micro-Saving were both significantly different from zero at the 0.001 level (two-tailed). This means that Trade credit facilities would only be available to the MEOs who have micro-saving. The regression weight for Financial Motivation in the prediction of Loan Guarantee was fixed at 1.00 based on sound economic theory which states that Micro-Credit or Financial

Motivation can only be available to the MEOs with Loan Guarantee. The estimates of variances of exogenous variables for Financial Motivation were further investigated to establish the spread for the Financial Motivation variables. The estimates of variances of exogenous variables for Financial Motivation are presented in Table 2.

**Table2: Estimates of variances of exogenous variables for Financial Motivation**

|                      | S.E. | C.R.   | P    |
|----------------------|------|--------|------|
| Financial Motivation | .008 | 2.275  | .023 |
| e1                   | .010 | 8.889  | .001 |
| e2                   | .104 | 4.319  | .001 |
| e3                   | .033 | 7.016  | .001 |
| e4                   | .005 | 10.763 | .001 |

**Source: Survey Data (2014)**

Note: e1 to e4 are errors 1to 4.

The estimates of variances of exogenous variables for Financial Motivation were all significantly different from zero at the 0.001 level (two-tailed). This means that the spread for the variables were ideal since they were larger than zero. It also signifies that all the factors (measured variables) of Financial Motivation had successful factor loading.

### Model Fit results for Financial Motivation variables

The Model Fit results for Financial Motivation variables are presented in Table 3.

**Table 3: Model Fit results for Financial Motivation variables**

| Model  | CFI   | TLI   | RMSEA | CMIN/<br>DF |
|--|-------|-------|-------|-------------|
| Default Model for Financial Motivation variables | 0.969 | 0.908 | 0.055 | 1.734       |

**Source: Survey Data (2014)**

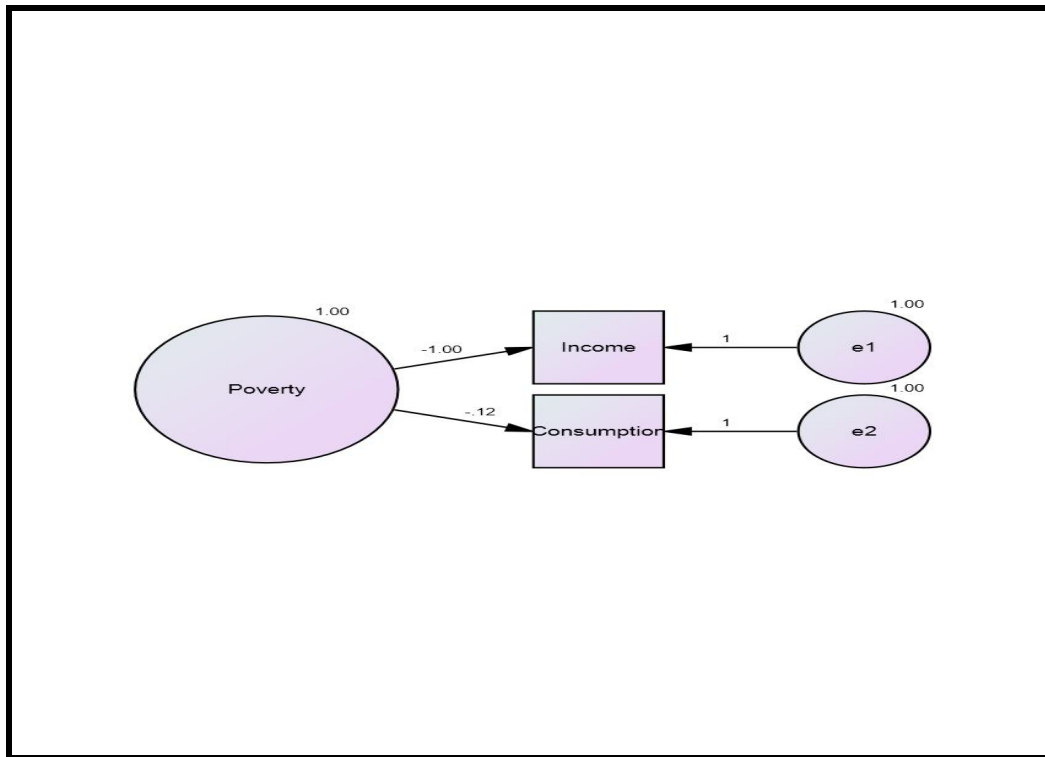
Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber et al, 2006).

The Model Fit results for Financial Motivation variables were as follows; CMIN/DF = 1.734; TLI = 0.908; the CFI = 0.969; the RMSEA = 0.055.

All the Goodness-of-Fit Indices for Financial Motivation variables shown by the Model Fit statistics in Table 3 met the required thresholds and were therefore acceptable. This further confirmed that the factor loading for Financial Motivation variables were successful. The measured variables loaded successfully onto the latent construct (Financial Motivation).



Confirmatory factor analysis for poverty as a latent construct and its observed variables are presented in Figure 2.



**Figure 2: Confirmatory factor analysis for poverty and its observed variables**  
 Source: Survey Data (2014)

The variables in the model are classified as observed or unobserved, and as either endogenous or exogenous. Observed, endogenous variables are Income and Consumption. Unobserved; exogenous variables are Poverty; e1 and e2. The model is presented in Table 4 using the estimates of regression weights.

**Table 4: Estimates of Regression Weight for poverty variables.**

|             |              | Estimate | S.E. | C.R.   | P    |
|-------------|--------------|----------|------|--------|------|
| Income      | <--- Poverty | -1.000   |      |        |      |
| Consumption | <--- Poverty | -.12     | .091 | -1.369 | .171 |

Source: Survey Data (2014)

The regression weight of poverty in the prediction of income was fixed at -1.00, and this was therefore not estimated. The negative value was used based on the sound economic theory which states that poverty decreases as income increases other factors remaining constant. Thus, when **poverty** goes up by 1 unit, income goes down by 1 unit and vice versa. The regression weight of poverty in the prediction of consumption was estimated at -0.12. This means that when poverty goes up by 1 unit, consumption decreases by 0.12 units and vice versa. The regression weight for Poverty in the prediction of Consumption in this study was not significantly different from zero at the 0.001 level (two-tailed). This means that poverty was still high among the MEOs in Homa-Bay Sub-

County despite their high consumption rate. This could mean that the MEOs had some other determinants of poverty apart from consumption which was used in this study as the determinant of Poverty among them. The estimates of variances of exogenous variables for Poverty were further investigated to establish the spread for the Poverty variables. The estimates of variances of exogenous variables for Poverty are presented in Table 5.

**Table 5: Estimates of variances of exogenous variables for Poverty**

|    | Estimate | S.E. | C.R.   | P    |
|----|----------|------|--------|------|
| IN | 2.344    | .065 | 35.980 | .001 |
| CO | 2.313    | .091 | 25.279 | .001 |

Note: IN is Income and CO is Consumption.

The estimates of variances of exogenous variables for Poverty were all significantly different from zero at the 0.001 level (two-tailed). This means that the spread for the Poverty variables were ideal since they were larger than zero. It also indicates that both the income and consumption (measured variables of Poverty) had successful factor loading.

#### Model Fit results for Poverty variables

The confirmatory factor analysis (CFA) Fit results for Poverty variables are presented by the Model Fit statistics in Table 6.

**Table 6: Model Fit results for Poverty variables**

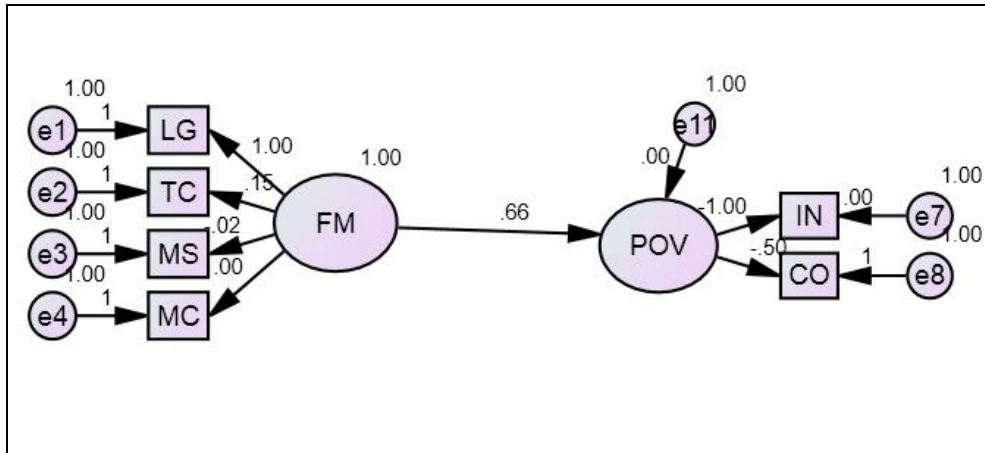
| Model                               | CFI   | TLI   | RMSEA | CMIN/DF |
|-------------------------------------|-------|-------|-------|---------|
| Default Model for Poverty variables | 1.000 | 0.905 | 0.049 | 1.472   |

#### Source: Survey Data (2014)

Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber, Stage, King, Nora, & Barlow, 2006).

The CFA Model Fit results for Poverty variables were as follows: CMIN/DF= 1.472; TLI = 0.905; the CFI = 1.000; the RMSEA = 0.049. All the Goodness-of-Fit Indices for Poverty variables met the required thresholds and therefore they were acceptable. This confirmed that Income and Consumption (measured variables of Poverty) had successful factor loading.

The Structural Equation Model (SEM) for the two latent constructs namely Financial Motivation and Poverty are presented in Fig. 3.



**Figure 3: Structural Equation Modeling for Financial Motivation and Poverty variables**

Source: Survey Data (2014)

Note: LG is Loan Guarantee, TC is Trade Credit, MS is Micro-Saving, MC is Micro- Credit, FM is Financial Motivation, POV is Poverty, IN is Income, CO is Consumption and e1to e11 are errors 1to11.

The variables in the model were classified as observed or unobserved, and as either endogenous or exogenous. The Observed, endogenous variables were, Loan Guarantee, Trade Credit, Micro-Saving, Micro-Credit, Income and Consumption. The Unobserved, endogenous variable was Poverty. Unobserved, exogenous variables were, Financial Motivation, e1, e2, e3, e4, e5, e6 and e7. The model is presented in Table 7 by the estimates of regression weights.

**Table 7: Regression Weights for Financial Motivation and Poverty variables**

|              | Estimate | S.E. | C.R.   | P    |
|--------------|----------|------|--------|------|
| POV <--- FM  | .659     | .025 | 26.777 | .001 |
| POV <--- e11 | .000     |      |        |      |
| MC <--- FM   | -.003    | .065 | -.046  | .963 |
| MS <--- FM   | -.015    | .065 | -.239  | .811 |
| TC <--- FM   | .147     | .065 | 2.271  | .023 |
| LG <--- FM   | 1.000    |      |        |      |
| IN <--- POV  | -1.000   |      |        |      |
| IN <--- e7   | .000     |      |        |      |
| CO <--- POV  | -.500    | .098 | -5.099 | .001 |

Source: Survey Data (2014)

Note: POV is Poverty, MC is Micro- Credit, MS is Micro- Saving, TC is Trade Credit, LG is Loan Guarantee, IN is Income FM is Financial Motivation, e7and e11 are errors 7 and 11 respectively.

The regression weight for Financial Motivation in the prediction of Poverty and Trade Credit were significantly different from zero at the 0.001 level (two-tailed). This means that Trade Credit offered to the MEOs as Financial Motivation could reduce their incidence of Poverty. Contrary to this outcome, the probability values for the relationship between Financial Motivation and both Micro-Credit and Micro-Saving were 0.963 and 0.811 respectively, suggesting that there was no significant relationship between Financial Motivation and Micro-Credit as well as Micro-saving

( $p > .001$  two-tailed). This is consistent with the studies (Karlan and Zinman 2010; Ferdous 2007; Kabeer 2004) which point out that micro-credit or Financial Motivation should not be treated as a remedy, but as a drug that can be prescribed to the Micro Enterprises. The studies reveal that if used improperly, micro-credit or Financial Motivation among MEOs, can harm business operations and have unintended negative consequences resulting to poverty among the MEOs.

In a similar manner, the relationship between Poverty and Consumption was statistically significant ( $p > .001$  two-tailed). This means that Poverty among the MEOs in Homa Bay Sub County increase with their Consumption. It means that the more the MEOs consume the more they are likely to become poor. The estimates of variances of exogenous variables for both Financial Motivation and Poverty were further investigated to establish the spread for Financial Motivation and Poverty variables. The estimates of variances of exogenous variables for both Financial Motivation and Poverty are presented in Table 8.

**Table 8: Estimates of variances of exogenous variables for Financial Motivation and Poverty**

|     | Estimate | S.E. | C.R.   | P     |
|-----|----------|------|--------|-------|
| FM  | .147     | .032 | 4.539  | 0.001 |
| POV | .109     | .010 | 10.194 | 0.001 |
| LG  | .109     | .010 | 10.914 | 0.001 |
| TC  | .140     | .018 | 7.579  | 0.001 |
| MS  | .091     | .010 | 9.411  | 0.001 |
| MC  | .580     | .060 | 9.615  | 0.001 |
| IN  | .176     | .033 | 5.376  | 0.001 |
| CO  | .058     | .005 | 10.840 | 0.001 |

**Source: Survey Data (2014)**

**Note:** FM is Financial Motivation, POV is Poverty, LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro-Credit, IN is Income and CO is Consumption.

The estimates of variances of exogenous variables for both Financial Motivation and poverty were all significantly different from zero at the 0.001 level (two-tailed). This means that the spread for the variables were ideal since they were larger than zero.

**Model Fit Results for both Financial Motivation and Poverty variables**

The Model Fit results for both Financial Motivation and Poverty variables are presented in Table 9.

**Table 9: Model Fit results for Financial Motivation and Poverty variables**

| Model  | CFI  | TLI  | RMSEA | CMIN /DF |
|--|------|------|-------|----------|
| Default Model for Financial Motivation and Poverty variables | .944 | .930 | .046  | 1.505    |

**Source: Survey Data (2014)**

**Note:** CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber, Stage, King, Nora, & Barlow, 2006).

The SEM Goodness-of-Fit Indices for Financial Motivation and Poverty variables were: CMIN/DF=1.505, CFI=0.944, TLI=0.930 and MMSEA=0.046. The Fit Indices met the required standards and therefore they were acceptable. This means that there was a positive relationship between Financial Motivation and poverty among the MEOs in Homa-Bay Sub-County.

Many entrepreneurial researchers agree that scarcity of financial resources is one of the major problems faced by Micro Enterprise owners in the developing countries (Cook, 2001). However, Karlan and Zinman (2010) pointed out that micro-credit or Financial Motivation should not be treated as a universal remedy, but as a drug that can be prescribed to Micro Enterprise Owners. Their studies reveal that if used improperly, micro-credit or Financial Motivation can harm business operations and have unintended negative consequences. Cameron (2005) emphasized that even when the poor MEOs enjoy access to financial services; their empowerment as a result of those services is not guaranteed. He noted that while a regular financial institution may charge 10-15% interest rates on a loan depending on credit history of the borrower, micro-credit institutions charge interest rates of 40-60%. Murdoch & Haley, (2002) affirm that such high interest rates discourage the poor MEOs from borrowing. Harper (2008) argues that providing micro-credit alone may not be an answer since it is more difficult for Micro-Credit schemes to help poor people start significant new income generating activities. (Laderchi, 2008) puts it that successful businesses require people with some entrepreneurial ability and not financial motivation alone. Ghatak (2010) found in a study of thirteen Micro-Credit Institutions in seven developing countries in Asia, Africa and Latin America that micro-credit programs which targeted higher income households had a greater impact on household income. Those below the poverty line were not assisted much and the poorest were somewhat negatively affected.

Available studies reveal that when MEs have access to micro-credit services or Financial Motivation, their business operations are always enhanced and this alleviates poverty. Other studies on the other hand reveal that when the poor MEOs enjoy access to financial services without management knowledge, their empowerment as a result of those services is not guaranteed. Successful businesses require people with some entrepreneurial ability and not Financial Motivation alone. If used improperly, micro-credit or Financial Motivation among the MEOs may harm some business operations and have unintended negative consequences resulting to poverty among the MEOs. Available studies have put more emphasis on the access of financial services by the MEOs. However, little is known about the relationship between Financial Motivation and Poverty among the MEOs.

## **Summary, Conclusion and recommendations.**

### **Summary of Findings.**

To determine the relationship between Financial Motivation and Poverty among the MEOs, Confirmatory factor analysis for both Financial Motivation as well as that of Poverty variables were done. Both the CFAs were done to establish the factor loading of the measured variables onto their latent constructs followed by SEM, which was done to assess the structural relationship between the two latent constructs namely Financial Motivation and Poverty. The confirmatory factor analysis Fit results for both Financial Motivation and Poverty variables met the required thresholds indicating that their measured variables had successful factor loading. The estimates of variances of exogenous variables for Financial Motivation and poverty were all significantly different from zero at the 0.001 level (two-tailed). The Fit Indices met the required thresholds and therefore they were acceptable

meaning that there was a positive relationship between Financial Motivation and poverty among the MEOs in Homa-Bay Sub-County.

### **Conclusions of the study.**

From the findings of the study, the conclusion was that there is positive relationship between Financial Motivation and Poverty among the MEOs in Homa-Bay Sub County. **Recommendations of the Study**

It is recommended that the Micro Enterprise Owners should undergo financial education to enlighten them on how to manage the financial resources of their Micro Enterprises. This would improve the performance of the Micro Enterprises and hence alleviate poverty among the Micro Enterprise Owners.

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