International Journal of Scientific and Technological Research (IJSTER) ISSN: 2617-6416 1 (1) 40-47, October, 2018
www.oircjournals.org

OIRC Journals
Oasis International Resource Centre

The Effect of Project Appraisal on the Sustainability of Small Enterprises; a Survey of Small Enterprises in Langas Estate, Eldoret Town-Kenya

Joseph Angote Wanda
Ollessos Technical Training Institute-Kenya

Type of the Paper: Research Paper.
Type of Review: Peer Reviewed.
Indexed in: worldwide web.
Google Scholar Citation: IJSTER

How to Cite this Paper:

Wanda, J. A., (2018). **The Effect of Project Appraisal on the Sustainability of Small Enterprises; a Survey of Small Enterprises in Langas Estate, Eldoret Town-Kenya.** *International Journal of Scientific and Technological Research (IJSTER), 1 (1) 40-47.*

International Journal of Scientific and Technological Research (IJSTER)
A Refereed International Journal of OIRC JOURNALS.

© OIRC JOURNALS.

This work is licensed under a Creative Commons Attribution-Non Commercial 4.0 International License subject to proper citation to the publication source of the work.

Disclaimer: The scholarly papers as reviewed and published by the OIRC JOURNALS, are the views and opinions of their respective authors and are not the views or opinions of the OIRC JOURNALS. The OIRC JOURNALS disclaims of any harm or loss caused due to the published content to any party.

The Effect of Project Appraisal on the Sustainability of Small Enterprises; a Survey of Small Enterprises in Langas Estate, Eldoret Town-Kenya

Joseph Angote Wanda
Ollessos Technical Training Institute-Kenya

ARTICLE INFO

Received 15th July, 2018
Received in Revised Form 1st September, 2018
Accepted on 30th September, 2018
Published online 8th October, 2018

Keywords: *Sustainability, Small Enterprises, Appraisal, Agency theory and Micro-finance*

Abstract

Project appraisal analyzes whether a project is worthy in the light of its costs in terms of resource commitments and the projects' expected benefits. Appraisal is a key element in the decision to assist in deciding as to whether or not to proceed with a project. This study examined the effects of project appraisal on the sustainability of small enterprises in Eldoret Town. The study was based on the Agency Theory with the population consisting of over 400 respondents from Langas Estate. Stratified and simple random technique was used to select a sample of one hundred and twenty nine (129) respondents. Primary data was collected using structured questionnaires. Data was analyzed using descriptive statistics and a regression analysis was done on the variables. Findings were presented in frequency tables and percentages. The multiple regressions between variables showed that there was an inverse relationship between sustainability of small enterprises and project appraisal. Project appraisal had a P value greater than 0.05 level of significance (P>0.05). Results on hypothesis testing also revealed that, there was no significant relationship between project appraisal and sustainability since the P value was (0.338) and was greater than 0.05, (P>0.05). The study concluded that project appraisal by microfinance institutions was not satisfactory. The projects were locked out of financing options simply because they were not convincing in terms of their profitability. Entrepreneurs were therefore denied the chance to expand and grow their businesses. Finally because entrepreneurs are risk takers they should not fear possibilities of projects crumbling but be ready always to invest in any business idea after their project appraisal.

1. Introduction

The financial system in Kenya is more developed than in most countries in the Sub-Saharan Africa region as argued by Odhiambo (2008) and compares favorably to other emerging nations of similar development levels comprising commercial banks, partly or wholly owned by foreign financial institutions, deposit-taking micro-finance institutions regulated by the Central Bank of Kenya (CBK) and established Micro-finance Institutions as well as approximately 450 additional institutions do not take deposits but engage in lending activities (Kinyanjui, 1996). Ongori & Migiro (2010) posit that in Kenya, the SME sector is the biggest employer outside agriculture. According to computations from economic surveys, for example the SME's share of total non-agricultural employment in 1999 was 68.2 percent up from 48.9 percent in 1993 (Government of Kenya, 2009) and as cited in the work of Kisaka & Mwewa (2014). This phenomenal growth in the SME sector has increased policy focus on the development of this sector as an engine of economic growth, employment creation and poverty reduction. This is in line with the government's objective of making the private sector the key source of future growth (Vision, 2030).

The place of Small Enterprises (SEs) in the growth and development of the society has been acknowledged by numerous researchers all over the world, among them (Kibas, 2001, Kinyanjui, 2001, Abor & Quartey, 2010). Many successful experiences around the world have led to the conclusion that one of the best ways to help a country move towards industrialization and to push the economy forward is to encourage local economic development through small business enterprise development (Kibas, 2004). The success stories of many industrially advanced nations, which acknowledged the position of SEs in their economic development process (Garofoli, 2002), have persuaded the developing countries such as Kenya to acknowledge and support the emergence and sustenance of small business enterprises in their national development goals. The small enterprise sector in Kenya employs over 2.3 million people and generates around 14 percent of the country's Gross Domestic Product (GDP) (Nasirembe, 2007).

Micro-finance institutions have been tasked with the mandate to provide finance to SMEs which has been pegged upon societal growth and development (Mubaiwa, 2014). Tony, *et al*. (2018) observes that, for SMEs to be approved for financial support, MFIs take measures to determine whether SMEs meet predetermined requisites. One way to determine whether requirements for loaning are met is through appraisal which results in feasibility reports to guide MFIs in decision making towards loaning procedures (Akalu & Turner, 2001b). Project appraisal is therefore the assessment of viability before MFIs commit themselves to financial investment of SMEs. Small enterprises are assessed by virtue of return on investment which is an agency relationship between SMEs and MFIs. Project appraisal offers MFIs with a decision making criteria upon which to provide limited funds to competing small enterprises (Remer & Nieto, 1995a; 1995b).

2.0 Literature Review

Agency Theory

The Agency Theory according to Masanga & Jera, (2017) can be seen as the study of the agency relationship and the issues that arise from this association, specifically the dilemma that the principal and agent may not always share the same interests while working toward the same goal. It is the analysis of principal-agent relationships in which one person, an agent, acts on behalf of another person, a principal (Connelly *et al*., 2011). Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members and employees. The agency theory postulates that the day to day running of a business is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. Connelly *et al*., (2011) further argue that the theory is on the notion of the principle of two-sided transactions which holds that any financial transactions involve two parties, both acting in their own best interests but with different expectations). Agency Theory assumes both the principal and the agent are motivated by self-interest (Mori & Richard, 2011). This assumption of self-interest dooms Agency Theory to inevitable inherent conflicts. Thus if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet agents are supposed to act in the sole interest of their principals. The theory provides useful knowledge into many matters in SME financial management and shows considerable avenues as to how SME financial management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs (Abrahamson *et al*., 1994).

Project Appraisal

Project appraisal analyzes whether a project is worthwhile in the light of its costs in terms of resource commitments and the projects expected benefits. Appraisal is an ex-ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. As observed by Radinger (2014), the technical aspect of appraisal is concerned with issues related to physical scale, layout, location of facilities, technology used, cost estimates and their relation to engineering or other data on which they are based, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of a project (Davis *et al*., 1993).

Project Appraisal on the Sustainability of Small Business Enterprises

Microfinance Institutions exist in various legal forms; including non-governmental organizations, credit link NBFIs, and commercial banks (Singh, P. 2010). Their success has shown that poor people are ready and valuable clients of specially designed financial services and that serving this niche can be financially viable. Microfinance Institutions bring valuable services to vulnerable people, enabling them to create, own, and accumulate wealth and assets. The purpose of project appraisal is to establish whether a project is worthwhile in the light of its costs in terms of resource commitments and the projects expected benefits. Appraisal is an ex-ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. The technical aspect of appraisal is concerned with issues related to physical scale, layout, location of facilities, technology used, cost estimates and their relation to engineering or other data on which they are based, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of a project. Financial appraisal (investment appraisal) on the other hand is concerned with questions such as the adequacy of funds, the financial viability of the project, the borrower's ability to service debt, procedures for recovering investment and operating costs (Davis *et al*., 1993).

3.0 Materials and Methods

Research Design

The research adopted a survey research design which was suitable for collecting facts, views, opinions, attitudes and suggestions from the respondents on the effects of project appraisal on sustainability of small enterprises in Langas Estate. The study considered the survey research design more appropriate for collecting and analyzing the relevant data. According to Mugenda and Mugenda (1999), it is used to collect data on what people say on a given phenomenon by use of questionnaires and interviews.

Sampling Procedures and Sample Size

This study applied stratified and simple random sampling technique. Mugenda and Mugenda (2003) argue that random sampling is the key to obtaining a representative sample. The study used data from the Uasin Gishu County Government, Department of Commerce and Industry and obtained a published list of licensed small enterprises captured by the department which provided for the categorical stratification of listed enterprises. Out of the many existent small enterprises in Langas Estate, the list only comprised of licensed enterprises. This guided the study in forming the strata.

Table 1: Sample Frame

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

Source: Uasin Gishu County Government (2014)

4.0 Results and Discussion

Project Appraisal by Microfinance Institutions

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

Frequency of Project Appraisal

Respondents were asked to indicate how often microfinance institutions appraise their projects. Findings were as indicated as in the figure below.

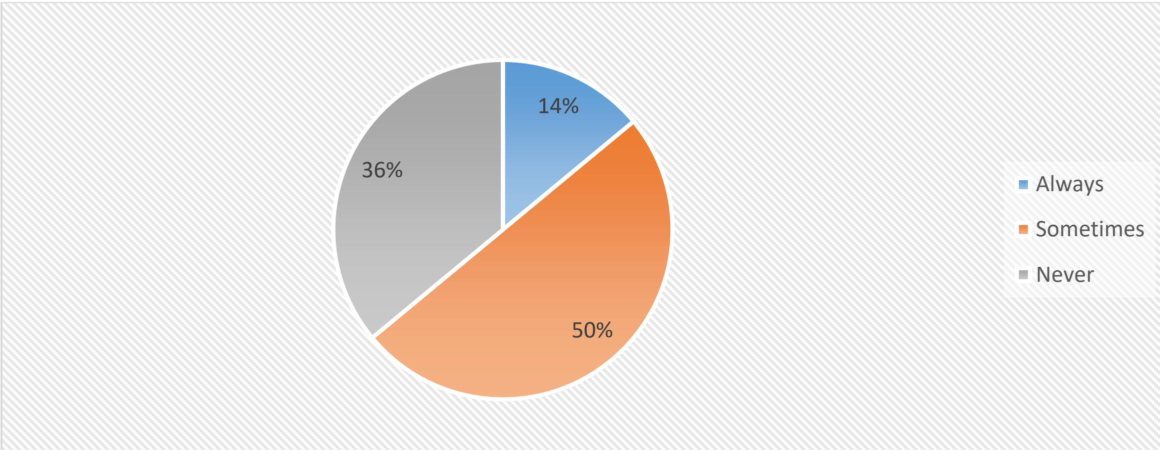

Fig 1: Frequency of Project Appraisal by Microfinance Institutions

The study established that, majority of the projects 50 percent, were not always approved. Thirty six (36) percent were never approved while 14 percent were always approved. These findings were an indication that majority of the projects failed to kick off even though they may have been profitable. Having established that majority of the projects were not being approved, the researcher was keen to establish the conditions that were impeding financing of these projects. Findings of this item were summarized as in Table 2.

Table 2: Project Appraisal by Microfinance Institutions

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

Majority of the respondents on average were in strong agreement with the existence of project appraisal conditions imposed by microfinance institutions. This is as per 65 percent of the respondents who strongly agreed with the statements. Fifteen (15) percent on the other strongly disagreed with the statements seeking to establish the availability of project appraisal conditions by microfinance institutions. Further, majority of the respondents specifically felt that the conditions which bore weight were barring of projects on the ground that they were not profitable and financing of those projects that microfinance institutions feel are likely to be profitable. It can be deduced that, a number of businesses that had failed to sustain their performance was partly due to lack of appraisal for their projects.

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

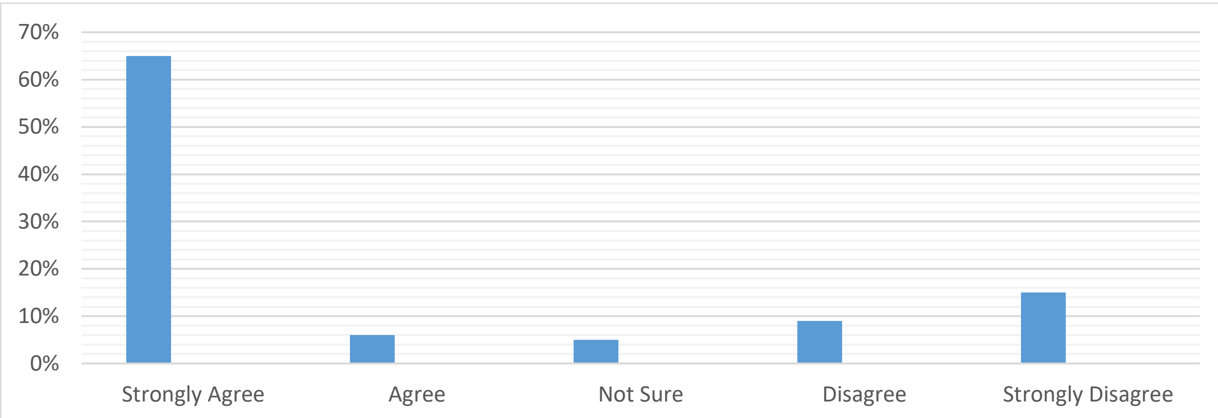

Fig 2: Existence of Project Appraisal Conditions in Microfinance Institutions

Table 3 shows the results of Analysis of Variance (ANOVA). The researcher was interested in the F statistics. These findings concur with (Ondiege, 1996), (Musinga, 1994) and (Davis *et al*., 1993) that project appraisal explains sustainability of small enterprises.

Table 3: Showing Predictors of Sustainability

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.014	.017		.829	.409
	Project Appraisal	-.022	.025	-.027	-.884	.379

Project appraisal had a P value greater than 0.05 level of significance, P>0.05 hence the study failed to reject the null hypothesis since there was no significant relationship between project appraisal and sustainability. There is a weak inverse relationship between project appraisal and sustainability as indicated by the coefficient (-0.022).

Table 4.4 Showing Predictors of Sustainability

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.113	.070		-1.615	.109
	Project Appraisal	.031	.032	.041	.963	.338

The findings of the study concerning effect of project appraisal on sustainability showed that there is no significant relationship between project appraisal and sustainability as shown by the P value (0.338) being greater than 0.05, $P > 0.05$. Multiple regression results also revealed that, there was a weak relationship between project appraisal and sustainability. The study revealed that, a positive change in requirements for project appraisal by microfinance institutions will lead to an improvement of sustainability of small enterprises by (0.031) 3.1 percent. Despite there being conditions for project appraisal that had led to cancelling of proposed projects, these conditions did not bear any major effect on sustainability of small enterprises.

5.0 Conclusion

These study findings did not concur with Davis *et al*. (1993) who established that project appraisal is a significant factor when it comes to assessing projected performance of a business. Projects were locked out of financing options simply because they were not convincing in terms of their profitability. Entrepreneurs were therefore denied the chance to expand and grow their businesses. Project appraisal in small enterprises is still very low. Furthermore, certain conditions that are imposed on entrepreneurs impede them from achieving business growth.

Recommendation

Microfinance institutions should consider entrepreneurs ideas and if possible, assist them to develop them into realities. They should not fear possibilities of projects crumbling since an entrepreneur is a risk taker and always ready to invest in any business idea. They should however, come up with strategies to achieve credit recovery. Experts in the field of project evaluation, project appraisal monitoring and loan administration should be employed for effective supervision, loan utilization and loan recovery performance in micro finance institutions. Micro-finance Institutions can consider issuing different credit products that meet both productive and consumptive motives to avoid fungibility of credit meant for the business.

References

Abrahamson, M., Gudgin, G., Hart, M., Hanvey, E. (1994). *Concealment of Negative Organizational Outcomes: An Agency Theory Perspective*. The Academy of Management Journal, 37(5).

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International research journal of finance and economics*, *39*(6), 215-228.

Connelly, A., Becchetti, L., Trovato, G. (2011). *Signaling Theory: A Review and Assessment*. Journal of Management, 37(1): 39-67.

Davis, S.J. Haltiwanger J.C. and Schuh S. (1993). *Job Creation and Destruction*. New York, Thomson-Gale.

Garofoli, G. (2002). Local development in Europe: theoretical models and international comparisons. *European Urban and Regional Studies*, *9*(3), 225-239.

Government of Kenya, (2009*). Economic Survey*. Nairobi: Government Printer.

Kibas, 2001, Kinyanjui, 2001, Yunus, M. (1976). *Microfinance and Poverty in Bangladesh.* Journal Development Studies.

Kibas P. (2004). *Who are entrepreneurs*? Journal of management Nairobi: Kenya Institute of Management.

Kinyanjui, M.N. (2001). *Employees in small Enterprises in Nairobi*: Job Search and career pattern. Asmara: Africa World Press, Inc.

Kinyanjui, M.N. (1996). *Small and Medium Manufacturing Enterprises Formation and Development in central Kenya*: Longhorn. Nairobi.

Kisaka, E. S., & Mwewa, N. M. (2014). Effects of micro-credit, micro-savings and training on the growth of small and medium enterprises in Machakos County in Kenya. *Research Journal of Finance and Accounting*, *5*(7), 43-49.

Masanga, G. G., & Jera, M. (2017). The Significance of Microfinance to Urban Informal Traders in Zimbabwe. *Development and Resources Research Institute Journal, Ghana*, *26*(3), 4.

Mori, N., & Richard, E. (2011). SMES Access to Financial Services: Tanzanian Bankers' Eye.

Mubaiwa, K. M. (2014). Micro-finance and enterprise development amongst the youth: A review of the Kurera-Ukondla Youth Fund in Harare, Zimbabwe.

Mugenda and Mugenda. (1999). *Research Methods, Quantitative and Qualitative Approach*. Nairobi: Act Press.
Nasirembe, M. (2007). *Impact of Entrepreneurial Development: The Case of Kenya.* Nairobi: University of Nairobi.
Navajas, S., M. Schreiner, R. L Akalu & Turner, 2001b). Meyer, C. Gonzalez-Vega and J. Rodriguez-Meza (2000), *Micro Credit and the Poorest of the Poor: Theory and Evidence from World Development*.
Odhiambo, N. M. (2008). Financial depth, savings and economic growth in Kenya: A dynamic causal linkage. *Economic Modelling*, *25*(4), 704-71
Ongori, H., & Migiro, S. O. (2010). Information and communication technologies adoption in SMEs: literature review. *Journal of Chinese Entrepreneurship*, *2*(1), 93-104.
Ondiege (1996). *Small Enterprises: Flexibility and Networking in an African Context*. Longhorn, Kenya.
Radinger, T. (2014). School Leader Appraisal - A Tool to Strengthen School Leaders' Pedagogical Leadership and Skills for Teacher Management. *European Journal of Education*, 49(3), 378-394.
Singh, P. (2010). Understanding the structure of Micro Finance Institutions in India and suggesting a Regulatory Framework. *Finance and Accounting department, IIM Lucknow*.
Tony, O. A., Kehinde, J. O., Oluwadamilare, A. B., & Olamide, A. T. (2018). Entrepreneurial financing and success imperatives: nurturing and enabling the goose that lay the golden egg. *International Journal of Information, Business and Management*, *10*(1), 123-136.