EFFECT OF MICROFINANCE ON FINANCIAL SUSTAINABILITY OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI EAST DISTRICT

BY

JAMES M. MUTHOKA

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ……………………………………………Date: 8/11/2012…………………

JAMES M. MUTHOKA

REG NO: D61/71195/2008

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature……………………………………………Date 12/11/12……………………………

Dr. J. ADUDA

SENIOR LECTURER

UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Almighty God for seeing me through the completion of this project.

The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor for his professional guidance and advice through the project.

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Thank you all. May the Almighty God bless you.

ABSTRACT

Microfinance is a powerful tool to alleviate poverty and promote financial sustainability of SMEs. The link between microcredit and financial sustainability of SMEs, though repeatedly emphasized by donors and practitioners in conferences and summits, is a controversial area of empirical research. Previous studies find that for the majority of borrowers income increases are small, and in some cases negative.

The purpose of the study was to find out the effect of microfinance on financial sustainability of SMEs in Nairobi East District. This research problem was studied through the use of a causal research design. The researcher studied 1327 SMEs in Nairobi East District. This research study used purposive sampling technique and specifically the judgmental sampling method to select 132 SMEs which is 10% of the target. Primary data was gathered through structured questionnaires. The data was then analyzed using descriptive statistics. A multivariate regression model was applied to determine the relative importance of each of the variables with respect to financial self sustainability.

The study found that the integrating gender awareness policies (gender equality and SME's human rights), creating ways for non-financial support and services (complementary services) to pay explicit attention to gender. The study further concludes that the SMEs do not have a long history of saving culture. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. The study finally concludes that financial and management counseling influence financial sustainability in the enterprises as well as workshops and seminars. The regression results imply that credit contribute more to the financial sustainability of SMEs followed by savings, while entrepreneurial development contributes the least to financial sustainability of SMEs. The study therefore recommends that the MFIs should be quick to measure the success rate of SMEs by considering factors like high repayment, outreach and financial sustainability, but these may not be success if their activities do not reflect in the growth of SMEs. The financial institutions need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development.

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AMFI	-	Association of Microfinance Institutions
CGAP	-	Consultative Group to Assist the Poor
MF	-	Microfinance
MFIs	-	Microfinance Institutions
NGOs	-	Non-governmental Organizations
ROSCAs	-	Rotating Savings and Credit Associations
SACCOs	-	Savings and Credit Cooperative Society
SMEs	-	Small and Medium Enterprises
MSEs	-	Micro and small Enterprises
SPSS	-	Statistical Package for the Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance is not a new concept. It is dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings and have simple and straight forward procedures that originate from local cultures and are easily understood by the population. These funds are to finance the informal sector SMEs in developing countries and it known that these SMEs are more likely to fail (Maloney, 2003).

The creation of SMEs generates employment but these enterprises are short live and consequently are bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. It is not until recent that microfinance had gained recognition thanks to the noble prize winner Yunus Muhammad of the Grameen Bank. It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998).

Researchers have viewed microfinance in different dimensions. Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people. These improvements are in a nutshell to alleviate poverty, and according to this project, it will be seen from the point of the development of small and medium size enterprises SMEs and focusing mostly in the rural areas.

1.1.1 Microfinance Institutions

Microfinance refers to small scale financial services such as cash loans, money transfers, direct deposits, savings, and insurance made accessible primarily to the poor. Over time microfinance has become a major tool of development, and is fast developing as an international industry, with its own trade associations, dedicated finance, training and other support organizations, research and journals. Microfinance seeks to provide practical, workable solutions to the deep-seated challenges of poverty. Microfinance institution can be said to be institutions established to provide assistance to the economically active poor whose control of the modest increases of income savings is assumed to improve their conditions of life for themselves and their children (Asim, 2008).

Microfinance institutions generally include savings and loans companies, rural banks, cooperatives, credit unions and Non-governmental Organizations (NGOs). People who consume their product are mainly self employed, low income men and women in several sectors of the national economy (Salman, 2008). Microfinance is a schemes designed to improve the well-being of the poor through better access to saving services and loans. It is considered as a vital issue in the development agenda relating to the provision and delivery of credit and other services to the poor.

According to the recently launched study on Access to Financial Services,(AMFI, 2003) as of June 2003, there were an estimated 3,460 legally constituted microfinance service providers in Kenya, including 3,397 savings and credit co-operatives and co-operative-like community-based intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Excluded from this list were 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered groups and 1,342 primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide.

1.1.2 SMES Financial Self Sustainability

The World Bank defines financial self sustainability as the process of increasing the capacity of institutions or groups to make choices and to transform those choices into desired actions and outcomes (Montgomery, 2005). Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.

In order to ensure financial viability, sustainability needs to be central in the planning and day-to-day operation of the SME. Indeed, financial sustainability can be considered as an important dimension as it is a condition for achieving sustainability of other project components (Salman, 2008). It is achieved if the revenues of the SME are greater than the expenditures. However, financial sustainability is an output of the sustainability of other components at the same time.

Financial sustainability is a key factor for SME sustainability, as it is a condition for achieving sustainability of other components and the survival of the SME (Todd, 2006). Moreover, financial sustainability is based on a given minimum purchasing power and sufficient density of potential SME customers. In addition to budgeting, bookkeeping, and strict financial discipline, SME should establish financial controlling mechanisms keeping them informed of the status of planned vs. actual expenditures, earnings, and cash flows.

1.1.3 SMES in Kenya

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. The SME industry in Kenya is characterized by the employment of between 50 to 200 employees and capital assets of a substantial amount of about Ksh. 2 million (excluding property). There is no standard definition of SME in

Kenya. Lenders 'definitions vary, but typically they define SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the "missing middle". Their size and credit demand have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies, while the capacity of the SME risk profile combined with the lenders' lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking.

According to Karanja (2011), most SMEs in Kenya are faced with a lot of challenges starting and maintaining businesses in a highly competitive environment in Kenya. Availability of credit remains a daunting challenge with most business expressing their dissatisfaction with financial institutions in making credit available to do business. Lack of information on where to access professional and financial services was a major impediment for growth, among those questioned in a recent survey. Despite availability of products offered by financial and microfinance institutions, the targeted recipients were not informed on where to get them and how to meet requirements. They however said the assistance should come in form of provision of capital and loans to small enterprises as well as access to credit facilities and training. The interest rates on credit facilities offered to SMEs are too high compared to the market rates and that the loan repayment period was short. Bank policies require micro finance clients to be treated like those of commercial banks in terms of the requirements for security or collateral for loan taken and recovery of default loans through means used by commercial banks including repossession of assets.

1.2 Statement of the Problem

The link between microcredit and financial sustainability of SMEs, though repeatedly emphasized by donors and practitioners in conferences and summits, is a controversial area of empirical research. Mizan (1993) finds significant and positive effects of participation in Grameen Bank program on entrepreneurs decision making within the household. However, Montgomery (2005) finds that participation in Khushali Bank's microcredit program in Pakistan does not increase the degree of enterprises financial sustainability while Salman (2008) suggest that at least in the urban slums, the link between microcredit and enterprises financial sustainability is not as strong as *perceived* by the donor agencies and microcredit practitioners. However all studies find that for the majority of borrowers income increases are small, and in some cases negative.

According to Love and Fisman, (2003), the provision of credit to the poor serves two purposes. First, as borrowed capital is invested in small enterprises, it often results in significant short-term increase in household expenditure and welfare. Secondly, microenterprises credit spurs economic growth in the informal sector through fostering increase capitalization of business, employment creation, and long-term income growth.

However, Tawah et al., (2008) did a study on the ability of microfinance to reach the poor and vulnerable. He focused his article in such a manner because of concerns that microfinance is only serving people slightly below or above the line of poverty, however the really poor and destitute are being systematically excluded.

Despite all these challenges, no study has ever been done on the effect of microfinance on financial sustainability of SMEs in Kenya. Mungai (2006) did a comparative study of the entrepreneurial characteristics of funded versus non funded entrepreneurs in Nairobi while Ngungi (2009) did a study on the responses of MFIs to opportunities presented by emerging entrepreneurship in Kenya This research project attempts to fill this knowledge gap by investigating the effect of microfinance on financial sustainability of SMEs in Nairobi East District..

1.3 Objective of the Study

The General objective of the study was to find out the effect of microfinance on financial sustainability of SMEs in Nairobi East District.

1.4 Value of the Study

The study coincides with the financial inclusion program being developed by the CBK on financing and hence, would provide valuable contributions and insights for determining the future course of financial sector reforms in Kenya. In recent years, there has been a lot of debate regarding the subsidies and gender-specific approach to microcredit. This study would potentially provide valuable insights into this ongoing debate.

Finding would be used by microfinance institutions in developing of their strategies and improvement on provision of microfinance services. The study would also help management and staff to understand and appreciate the impact of their organization services on SMEs and sought to strengthen their performance so as increase the organization contribution to the Economy.

Finding would be used by government to promote microfinance programmes in other parts of the country. The study would be significant to government and policy makers because they would be able to understand the effect of Microfinance institution services on the Kenyan Economy and be able to recommend favorable regulations and policies to strengthen the sector

The finding would be important to academics and researchers as basis for further researches. The study would provide the background information to research organizations and scholars who would want to carry out further research in this area. The study would facilitate individual researchers to identify gaps in the current research and carry out research in those areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on the effects of micro-credit offered by financial institutions on the financial sustainability of SMEs. The chapter begins with a theoretical review of theories that are related to entrepreneurship. This is followed by an empirical review and the chapter summary.

2.2 Theoretical Review

2.2.1 Micro credit theory

The psychological component of the micro credit theory - known as social consciousness-Driven capitalism - has been advanced by the most ardent promoter of micro finance, Muhammad Navajas, Conning and Gonzalez-Vega (2003). His theory argues that a species of profit-making private venture that cares about the welfare of its customers can be conceived. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests oftheir customers.

The rationale of the theory is straightforward. Although altruism is not totally absent, Capitalism is founded mainly on the premise that human beings are selfish by nature. Accordingly, individuals interested in businesses are naturally motivated by the principle of profit-maximization, with little consideration for the interests of their clients. This premise is too limited to be a general model for capitalism, however, because it excludes individuals who are concerned about the welfare of their fellow human beings. A more generalized principle would assume that an entrepreneur maximizes a bundle consisting of financial return or profit and social return. This assumption creates three groups of entrepreneurs (Mosley and Hulme, 1998). The first group consists of traditional capitalists who mainly maximize financial returns or profits. The second group consists of philanthropic organizations (like traditional micro credit NGOs) and public credit agencies that mainly maximize social returns. The third group consists of entrepreneurs who combine both rates in making their investment decisions under the additional constraint that financial return cannot be negative. This group includes the microfinance enterprisers who are to be treated as socially concerned people, and microfinance, which is to be treated as a social consciousness-driven capitalistic enterprise. Microfinance theoreticians have advanced two theories regarding their aims-an economic and a psychological.

2.2.2 Economic theory

The economic theory treats microfinance institutions (MFIs) as infant industries, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as "social consciousness driven people." According to Heidhues, Belle-Essoh and Buchenrieder, (2002), the gist of the economic argument is that success in any business venture, including MFIs, is determined by the entrepreneurs' ability to deliver appropriate services and profitably. However, studies conducted in different parts of the world show that there are no successful MFIs by this definition. At best, some MFIs cover their operating costs while some of the better known among them are able to cover in part the subsidized cost of capital employed. 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. This subsidization would be beneficial to both the economy and society because this will help micro lenders realize economies of scale and the productivity fillip that comes with profitability. The logic goes as follows: Over time, as clients of MFIs, micro entrepreneurs will establish their economic contracts with banks, retailers, government employees, and suppliers of production inputs, which will improve their skills dealing with money management, contractual obligations, and resource management. 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. To the extent that these public goods have value, they are a legitimate basis on which to provide subsidies to MFIs while the transition to widespread outreach to poor households is ongoing (Heidhues, Belle-Essoh and Buchenrieder, 2002).The Wealth of Nation says little about the psychological aspect of the theory.

2.2.3 The theory of Mercantilism

Mercantilism is associated with five leading features (Burger, 1989). First, bullion and treasure are the essence of wealth of nations. Second, foreign trade should be regulated to produce an inflow of specie. Third, domestic industries are to be promoted by inducing cheap raw-material imports. Fourth, the importation of manufactured goods is to be discouraged through custom duties, while the exportation of domestic manufactured goods is to be encouraged by exempting them from such duties. Finally, population growth is to be encouraged to keep wages low. These features suggest that the core doctrine of this trade theory is the favorable balance of trade as desirable and essential for national prosperity. This theory, however, clearly involves a dual policy regime of taking advantages from trading partners. This is the reason mercantilism is popularly described in economic literature as the "beggar thy neighbors" policy.

Mercantilism is without a doubt a very unfair trade policy regime; it might, and it did, trigger trade wars. In addition to its negative political implications, the theory is economically unsound as a policy for national development. Adam Smith was the first to expose this weakness. He argued that "mercantilism is nothing but a tissue of protectionist fallacies foisted upon a venal Parliament by our merchant and manufacturers, grounded upon the popular notion that wealth consists in money. Like an individual, a country must spend less than its income if its wealth is to increase. What tangible form does this surplus over consumption take? The mercantilist authors identified it with the acquisition of hard money or treasure. Money was falsely equated with capital and the favorable balance of trade with the annual balance of income over consumption" (Buckley, 1997).

The publication of The Wealth of Nations was a severe blow to the mercantilist idea of improving national economic welfare through protection. Yet, this idea soon reappeared under different designations, the most influential of which is the infant-industry argument. Modern writers (Yunus, 2003) credit John Stuart Mill with the clearest articulation of this influential protectionist trade policy argument, which can be summarized as follows: "temporary" protective duties may be justified in cases where foreign suppliers' comparative advantages lie mainly in starting the production of these items sooner. This suggests that the present superiority is due to acquired skill and experience. Under certain conditions, a protecting duty might be the least inconvenient method for national development. However, Mill warns very emphatically about the use and abuse of his theory. He states that "it is essential that the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producer ever be allowed to expect that it will be continued even beyond the time necessary for a fair trial of what they are capable of accomplishing" (Yunus, 2007).

In Kenya like in many other countries, approaches to the regulation of MFI are complicated by the fact many institutions are involved in providing MF services under different legal structures. The present a challenge in identifying an appropriate regulating approach, which is conducive to the development of the sector while providing adequate facility to the MFI activities. The tiered approach recommended for Kenya recognizes the inappropriateness of the existing banking legalization for the regulation of specialized activities of MFI and the diversity of the institutions engaged in the less regulated sector. However MFI operating as banking institutions, SACCOs and Kenya Post Office Saving Bank are already regulated by the act of parliament that specifies their different supervisory authority

2.3 Financial Self Sustainability

A financial sustainability requirement of cutting costs to a minimum has led many programmes to seriously cut complementary services. In the past some support services in some programmes, including business training and gender awareness, have been both expensive and had minimal impact.

Economic poverty: Credit invested in an income-generating enterprise as working capital or for productive assets leads to establishment of a new enterprise or growth of an existing one. Profit from the enterprise provides increased income, and a general strengthening of income sources. The extent to which income increases occur varies considerably between organisations and between clients, since they are primarily related to the investment of credit in an income-generating activity. The AIMS longitudinal studies, for example, found that increases in household income were driven largely by increases in microenterprise revenues. Clients from programs that did not focus specifically on microenterprise development therefore experienced little or no net income gains (Snodgrass and Sebstad, 2002).

Stabilization of income and expenditure smoothing: The establishment of a reliable and regular income can create significant impacts in terms of ability to access food, health care, education and other services, and reduce the negative effects of debt-cycles. Similar economic benefits are gained from consumption smoothing, where savings or credit allows for small regular payments to be made, rather than cash having to be found for a larger lump sum. Again this can help with avoiding indebtedness and/or enabling day-to-day payments to be made, for example by avoiding the need to sell assets, cut back on expenditure such as education or take usurious loans from money-lenders. These impacts are particularly important for very poor clients who may be less able to respond to opportunities to invest in and expand a microenterprise (Morduch and Haley, 2001).

Physical asset accumulation: A key impact of microfinance is to help clients accumulate or retain physical assets (Sebstad and Cohen, 2000). Assets are increased either through direct loan use, as a benefit of income smoothing, or through the use of profits generated through the investment of a loan. Clients can also protect existing assets, for example through the investment in vaccinations for livestock, or by using savings or credit to cope with shocks when they occur. Poor households invest in physical assets for three main reasons: household assets which primarily contribute to quality of life, and may also provide security and possible income in the case of future need; household assets which are primarily held as savings-in-kind such as livestock; productive assets which are used to generate income, such as land/houses for rent or equipment for a business.

Risk and Vulnerability: Recent studies of the impact of microfinance, have placed a much greater emphasis on the role of financial services in reducing client risk and vulnerability (Snodgrass and Sebstad, 2002). Financial services have the capacity to interact with many aspects of clients' lives, not just to develop a microenterprise. Microfinance is thus an important enabling input. It has a potential to impact on poverty in a holistic way, supporting client livelihoods, reducing vulnerability, fostering social and economic empowerment, and releasing people's potential to achieve their goals. Even where there are no net gains in income, significant impacts in terms of reduced vulnerability can be achieved through the establishment of more regular, reliable, diversified and resilient income sources, consumption smoothing, increased savings and assets, expanding options for credit, and improving household money management (Snodgrass and Sebstad, 2002). The combined effect of these changes reduces risk of crises and emergencies occurring, and increases the ability of clients to cope if they do occur. Diversified incomes, managed by MFI clients with increased skills, are less likely to fail due to mismanagement or as a result of an external shock. Savings reduce vulnerability, allow for planning and management of household finances, consumption smoothing, and accommodating predictable life-cycle needs as well as for coping with unpredictable negative events, and responding to opportunities.

2.4 Role of Microfinance in Financial Self Sustainability of SMEs

Microfinance has been seen as a tool for financial self sustainability and ensuring the welfare of SMEs. Microfinance (MF) reaches 74% of all poor individuals in the world and therefore, is a great potential empowerment channel (The Micro credit Summit Campaign -2002) emphasizing on the necessity of empowering individuals. A majority of microfinance programmes target SMEs with the explicit goal of empowering them. There are varying underlying motivations for pursuing SMEs financial self sustainability.

Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty. Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for a small business enterprise, to fix a leaky roof, to pay for health care, or to send more children to school. Microfinance also helps safeguard poor households against the extreme vulnerability that characterizes their everyday existence. Loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods (Brockhaus, 2001).

Various writers have indicated microfinance as means of SMEs financial self sustainability. Bengston states that micro financing for individuals aims to make their micro enterprises more financially rewarding this should contribute to a measure of economic empowerment within the family and in social and political spheres. The rationale for supporting microfinance and the targeting micro finance programs is that microfinance is an effective means or entry point for empowering individuals (Cheston and Kuhn 2002).

2.4.1 Savings

It is hard for people in the rich world to imagine what it is like to live on $2 a day. But for those who do, the problem is often not just a low income, but an unpredictable one. Living on $2 a day frequently means living for ten days on $20 earned on a single day. The task of smoothing consumption is made more complicated if there is nowhere to store money safely. In an emergency, richer people might choose between dipping into their savings and borrowing. The choice for the great mass of the unbanked in the developing world is limited to whom to borrow from, often at great cost (Cheston and Kuhn, 2001).

That they can borrow at all is partly due to the rapid growth of microfinance, which specializes in lending small amounts to poor people. Several big microfinance institutions (MFIs) also offer savings accounts: Grameen Bank in Bangladesh is a prominent example. But the industry remains dominated by credit, and the ability to save through an MFI is often linked to customers' willingness to borrow from it. Of 166 MFIs surveyed in 2009 by the Microfinance Information Exchange, a think-tank, all offered credit but only 27% offered savings products. Advocates of a greater variety of financial services for the poor argue for more balance (Guichandut, 2006).

This may be on the horizon. More MFIs are becoming interested in the potential of savings, thanks partly to the global financial crisis. A majority of more than 400 MFI managers surveyed last March by the Consultative Group to Assist the Poor (CGAP), a microfinance group based at the World Bank, said that they had faced liquidity problems during the crisis (see chart). This, together with rising financing costs and exchange-rate fluctuations for those MFIs that rely on external finance, has prompted many "credit-only" MFIs to warm to the idea of funding at least part of their lending activity using local savings (Guichandut, 2006).

2.4.2 Credit

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995). The main objective of microcredit according to Navajas et al, (2000) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor (Rhyne and Otero, 1992).

Buckley (1997) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism". Carrying out research in three countries; Kenya, Malawi and Ghana, Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this augment is that improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Zeller and Sharma (1998) argue that microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (1989) indicates that microfinance tends to stabilise rather than increase income and tends to preserve rather than to create jobs.

Facts by Coleman (1999) suggest that the village bank credit did not have any significant and physical asset accumulation. The entrepreneurs ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from this study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. It also concluded that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal land distribution but not lack of access to credit.

A study of thirteen MFIs in seven countries carried out by (Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improve. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

2.4.3 Entrepreneurial Development

Selecting a target market depend on the micro service provider and the perceived demand for financial services. In any country, there are underserved enterprises and households, ranging from the ultra poor who may not be economically active, to small growing enterprises that provide employment in their communities. This range or continuum constitutes the demand size for micro finance services. Often, the supply side does not offer a corresponding continuum services. Microfinance institutions need to supply services that fill the gaps and integrate the underserved group into the market (Guérin, 2006).

The goal of microfinance institutions as development organization is to service the financial needs have served and underserved market as a means of meeting development objectives. The importance of microfinance to entrepreneurial development made the Central Bank of Kenya adopted it as the main source of financing entrepreneurship in Kenya. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Kenya. While government and Non Government Organisations (NGOs) have been engaging a number of programmes and policies to encourage entrepreneurship in the country, Kenya is still on the list of the poorest countries in the world with unemployment level rising alarmingly. It is therefore necessary at this junction to undertake an assessment of the extent to which microfinance can impact entrepreneurial development (Cheston and Kuhn 2001).

2.5 Empirical Studies

There is very little empirical evidence in the literature on the effect of credit on the 'outcome' indicators of financial self sustainability of SMEs. The two widely cited studies are Hashemi et al. (1996) and Khandker et al. (2003). Both of these studies find significant positive effects of membership in MFI on financial self sustainability of SMEs. Hashemi et.al (1996) investigated whether entrepreneurs' access to credit has any impact on their lives, irrespective of who had the managerial control. Their results suggest that entrepreneur's access to credit contributes significantly to the magnitude of the economic contributions reported by entrepreneurs, to the likelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness as well as in composite financial self sustainability index. They also found that access to credit was also associated with higher levels of mobility, political participation and involvement in 'major decision-making' for particular credit organizations.

In Indonesia borrowers increased their incomes by 12.9 percent compared to increases of 3 percent in control-group incomes. Another study on Bank Rakyat Indonesia borrowers on the island of Lombok in Indonesia reports that the average incomes of clients had increased by 112 percent and that 90 percent of households had moved out of poverty (Panjaitan-Drioadisuryo, and Kathleen, 1999). A comprehensive study of microfinance conducted by the World Bank in the early 1990s on three of the largest programs in Bangladesh—Grameen Bank, BRAC, and RD-12—found that clients increased household consumption by 18 takas for every 100 takas borrowed, and that 5 percent of clients graduated out of poverty each year by borrowing and participating in microfinance programs. More importantly households were able to sustain these gains over time. There were also spillover effects in the village economy. Average rural household incomes in program villages increased even for non-program households. One of the programs even influenced village wage rates. Increases in self-employment and subsequent withdrawals from informal labor pools led to a 21 percent increase in wages in the program villages (Zaman, 2000).

Holvoet (2005) finds that in direct bank-borrower minimal credit, entrepreneurs do not gain much in terms of decision-making patterns. However, when loans are channeled through entrepreneurs groups and are combined with more investment in social intermediation, substantial shifts in decision-making patterns are observed. This involves a remarkable shift in norm-following and male decision making to more bargaining and sole decision-making. She finds that the effects are even more striking when entrepreneurs have been members of a group for a longer period and especially when greater emphasis has been laid on genuine social intermediation.

Mayoux (2001) argues that the impact of microfinance programmes on entrepreneurs owned SMEs is not always positive. Entrepreneurs that have set up enterprises benefit not only from small increases in income at the cost of heavier workloads and repayment pressures. Sometimes their loans are used by men in the family to set up enterprises, or sometimes entrepreneurs end up being employed as unpaid family workers with little benefit. She further points that in some cases entrepreneurs increased autonomy has been temporary and has led to the withdrawal of male support. It has also been observed that small increases in entrepreneurs income are also leading to a decrease in male contribution to certain types of household expenditure.

Mayoux (2001) also warns about the inherent dangers in using social capital to cut costs in the context of other policies for financial sustainability. The reliance on peer pressure rather than individual incentives and penalties may create disincentives and corruption within groups. Reliance on social capital of entrepreneurs clients along with increasing emphasis on ideals on strict economic accounting at the programme level require increased voluntary contribution by the members in terms of time and effort. It has been noted that those putting in voluntary contributions also expect to be repaid in the form of leadership of the group

Kiiru, (2009) conducted a study on the impact of microfinance on rural poor households' income and vulnerability to poverty in Makueni district. The main objective of the thesis was to analyze the impact of microfinance on household income as well as measure household vulnerability to poverty after access to microfinance. The study was an experimental case of Makueni district where participants in microfinance programmes and non participant households were studied over time; thus yielding a rich pooled data for analysis.

On integrating time dynamics in the analysis, the results indicate a positive and significant impact of microfinance on household income. To this end the thesis argues that there is a role of microfinance on the improvement of household incomes. The thesis also re asserts that providing affordable financial services to the rural population still remains to be an important component of development strategy. On the other hand the thesis emphasizes that there is need to come up with innovative microfinance institutions that are supportive of their own role in assets accumulation and wealth creation for their clients. This will involve innovative targeting of potential clients, as well as streamlined microfinance regulations to protect their clients. In particular the study cautions that the ability of households to begin informal sole micro entrepreneurships should not be assumed to be adequate for the improvement of household income. There is need to create a policy framework to spur growth not only in the micro enterprises but also in the overall rural economy that would lead to the creation of employment opportunities and an increment in the agricultural output. This is quite a big task to accomplish and may require more than one particular policy intervention. In essence this calls for both private (microfinance) and public partnerships to create the environment where such poverty reduction objectives could be realized.

Abiola (2002) conducted a study on the impact analysis of microfinance in Nigeria. This paper applies the financing constraints approach to study whether microfinance institutions improved access to credit for microenterprises in Nigeria or not. According to this approach, microenterprises with improved access to credit rely less on internal funds for their investments. Thus, investment sensitivity to internal funds of micro enterprises in Lagos State (a municipal with significant presence of Microfinance Banks (MFBs) was compared to that of micro enterprises in Ekiti State (a municipal with no (or limited) presence of MFBs) using a cross sectional survey method and Microfinance Institutions (MFI) branch location data. Results indicate that MFBs alleviated micro businesses' financing constraints.

Simeyo et al., (2012) did a study 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. Micro and Small Enterprises (MSEs) sector contributes 20% to the GDP of the Kenyan economy. The vision of micro finance is to promote the growth of micro enterprises. In pursuit of this vision, the rapid growth of Micro finance institutions (MFIs) has made MSEs access to credit more than doubled from 7.5% in 2006 to 17.9% in 2009. Despite this increase, a recent study has shown that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment.

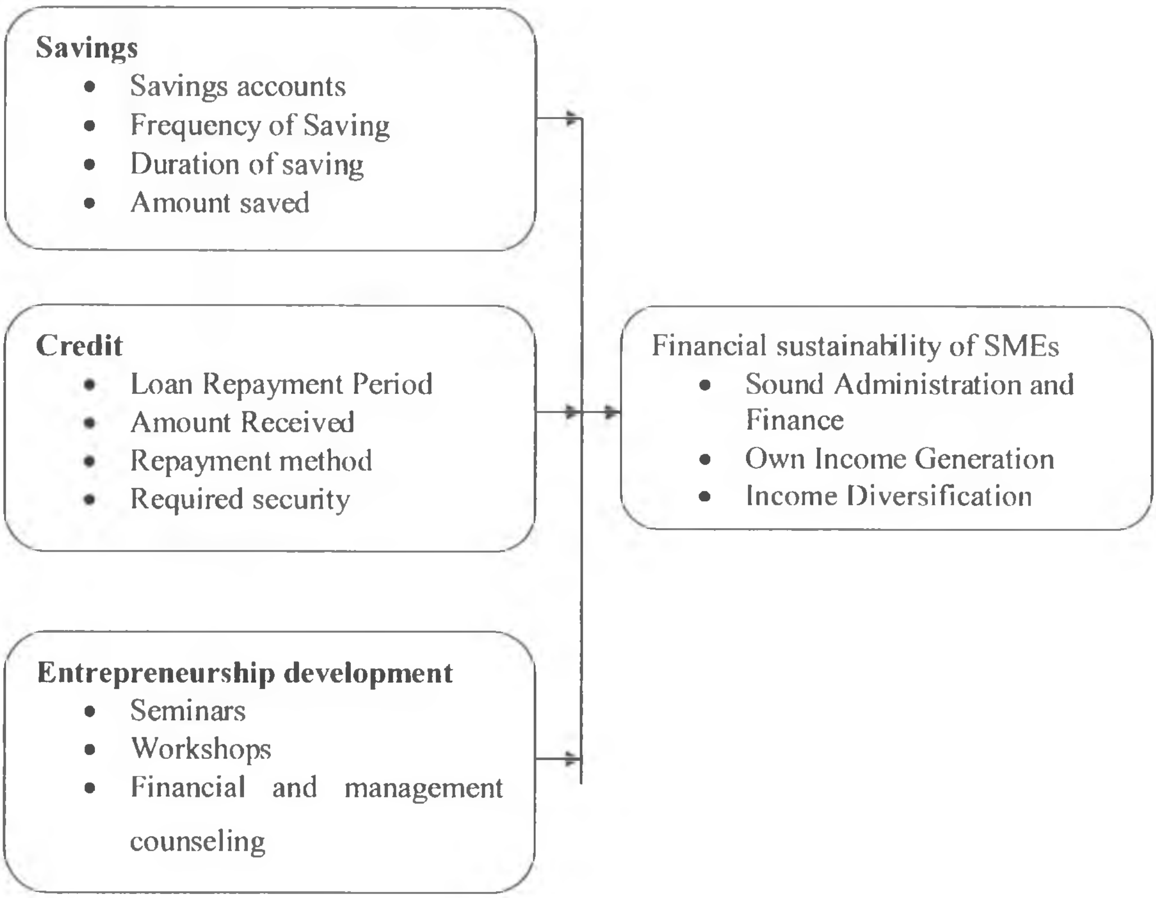
This brings to question the effectiveness of the role of micro finance in promoting growth of micro enterprises. The objective of this study was therefore to evaluate the effect of

provision of micro finance on the performance of youth micro enterprises under K-REP program in Kisii County, Kenya. The study employed a cross sectional survey design. A sample of 86 youth micro enterprises was selected from a population of 110 youth micro enterprises using simple random sampling technique. Primary quantitative data were collected by use of structured questionnaires and analyzed by use of descriptive statistics, multiple regression analysis and Pearson correlation coefficient.

The empirical results revealed that loan had the largest significant effect on performance of micro enterprises with a beta coefficient of 0.385, followed by training in micro enterprise investment with a beta coefficient of 0.281 and Savings mobilization had the least but significant effect with a beta coefficient of 0.272. Based on the research findings, the study concludes that provision of micro finance has a significant effect on the performance of youth micro enterprises in Kenya. Therefore provision of micro finance to the youth to engage in micro enterprise activities will help spur economic development and alleviate youth unemployment, in line with Kenya's vision 2030.

2.6 Conceptual Framework

This study will seek to establish the effect of microfinance on financial sustainability of SMEs in Nairobi East district. The independent variables in this study will be savings, credit and entrepreneurship development.



Independent variables **Dependent variable**

Figure 2. 1: Conceptual Framework

2.7 Chapter Summary

Evaluations of the effects of microfinance programs on financial sustainability of SMEs generate mixed results. While some are supportive of microfinance's ability to induce a process of economic, social and political empowerment, others are more skeptical and even point to a deterioration of entrepreneur's overall well-being. In particular, the details of the current practices used by the microfinance industry have been highlighted as to be especially significant by many researches (e.g. Mayou 2001 or Guérin 2006 for the African context; Mahmud 2003, Holvoet 2005 or Moodie 2008 in Asia; Velasco and Marconi 2004 in Latin America). A more cautious conclusion will therefore be that microcredit can indeed make a significant contribution to financial sustainability of SMEs, provided that such practices are well adapted to their economic and social entourage, and singularly to the diverse demands of entrepreneurs.

With all these controversies on the impact of microfinance on financial self sustainability of owned SMEs, there is a need to clearly establish the impact of MFIs on financial self sustainability of SMEs. Further, most of the studies cited in the literature are conducted in developed countries whose strategic approach and financial footing is different from that of Kenya. Thus, there exists a literature gap on the impact of microfinance on financial sustainability of SMEs which this study seeks to fill by focusing on Nairobi East District.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the methodology that was employed in carrying out the study. In this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This research problem was studied through the use of a causal research design. According to Malhotra and Peterson (2006), a causal research is a type of conclusive research whose major objective is to obtain evidence regarding causal relationships. They also posited that the design is useful in investigating the cause and effect relationship between two or more variables. In this case the researcher is interested in measuring the impact of microfinance on financial sustainability of SMEs and so a causal study is deemed to be more appropriate.

3.3 Target Population

A population is the group that the research focuses on (Cooper and Schindler, 2003). Target population in statistics is the specific population about which information is desired. For logistical and budgetary concerns the researcher studied 1327 SMEs in Nairobi East District (NCC Records, 2011). This was because several microfinance institutions have concentrated in that area and they offer most of their services to SMEs in that area.

3.4 Sampling Design and Sample Size

This research study used purposive sampling technique and specifically the judgmental sampling method to select 132 SMEs which is 10% of the target. Kotler et al. (2001)

argues that if well chosen, samples of about 10% of a population can often give good reliability. This was because judgmental sampling involves the choice of subjects who are most advantageously placed or in the best position to provide information required (Sekaran, 2003). The owners of the SMEs formed the population. Determination of sample size in this present study relied on published tables which provide the sample size for a given set of criteria. The criteria used as a guide to determine the appropriate sample size for this study was: first, the level of precision or sampling error (estimation error) is ±3% percent, second, the level of confidence or risk level is 95% within two standard deviations of the true population value, and third the degree of variability is a proportion of 50% (p-value 0.5) which indicates maximum variability in the population.

3.5 Data Collection

Primary data was gathered through structured questionnaires. On the other hand secondary data was collected from newspapers, journals and magazines as well as other sources such as the MFI's annual reports. A semi-structured questionnaire was used to collect primary data. In order to ensure uniformity in response and to encourage participation, the questionnaire was kept short and structured with mostly multiple-choice selections in a likert scale. The questionnaires were preferred in this study because respondents of the study are literate and quite able to answer questions asked adequately. According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. The researcher obtained an introductory letter from the University to collect data then personally deliver the questionnaires to the respondents and has them filled in and then collect later: the drop and pick later method.

3.6 Data Reliability and Validity

To ascertain the validity of questionnaire, a pilot test is carried out (Cronbach, 1971). The content validity of the research instrument was evaluated through the actual administration of the pilot group. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items are sent to the pilot group to obtain suggestions for modification (Lacity and Jansen, 1994). Content validity draws an inference from test scores to a large domain of items similar to those on the test (Polkinghorne, 1988).

Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. The acceptable reliability coefficient is 0.6 and above (Nunnaly, 1978). If the Cronbach alpha is below 0.6 the reliability of the questionnaire is considered too low and thus the research tool should be amended.

3.7 Data Analysis and Presentation

Completed questionnaires were edited for completeness and consistency. The data was then analyzed using descriptive statistics. The descriptive statistical tools (SPSS V.17.0 and Excel) helped the researcher to describe the data. This generated quantitative reports through tabulations, percentages, and measure of central tendency. The findings were presented using tables and graphs for further analysis and to facilitate comparison.

A multivariate regression model was applied to determine the relative importance of each of the variables with respect to financial self sustainability. Other related studies have used similar approach to establish similar characteristics. The linear regression analysis was chosen as the approach to analyse the data. The regression model was as follows: $Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$. whereby: Y = financial sustainability of SMEs (Sound Administration and Finance, Own Income Generation, Income Diversification, Financial and Strategic Planning, Indirect Cost Recovery Rate, Accounting Systems, Cash Flows, Profitability, Physical asset accumulation, Risk and Vulnerability), β_0 = Constant Term, $\beta_1, \beta_2, \beta_3$ = Beta coefficients, X1 = savings (Amounts, Frequency), X2 = credit (Interest rate, Amount offered, repayment terms), X3 = Entrepreneurial development (Seminars, workshops, financial and management counseling), and ε = Error term.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

The purpose of this research was to find out the effect of microfinance on financial sustainability of SMEs in Nairobi East District. This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the effect of microfinance on financial sustainability of SMEs in Nairobi East District, Kenya.

4.2 Questionnaire Return Rate

The study sampled 132 respondents from the target population in collecting data with regard to the effect of microfinance on financial sustainability of SMEs in Nairobi East District. The questionnaire return rate results are shown in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	119	90
Not responded	13	10
Total	**132**	**100**

Source: Author, 2012

From the study, 119 out of 132 target respondents filled in and returned the questionnaire contributing to 90%. This commendable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires as well as explaining the importance of their participation in this study. This commendable response rate can be attributed to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone calls and picked the questionnaires once fully filled. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The questionnaires that were not returned were due to reasons like, the respondents were not available to fill them in at that time and with persistence follow-ups there were no positive responses from them. The response rate demonstrates a willingness of the respondents to participate in the study.

4.3 General Information

The study targeted owners of the SMEs in Nairobi East District. As such the results on demographic characteristics of these respondents were investigated in the first section of the questionnaire. They are presented in this section under gender distribution of the respondents, age of the respondents, working experience, highest academic qualifications.

The study posed a question requesting the respondents to indicate their age brackets. Table 4.2 shows the results of the findings on the age brackets of the respondents.

Table 4.2: Age Brackets of the Respondents

Age Bracket	Frequency	Percent
Below 20 years	8	6.7
21-30 years	36	30.2
31-40 years	47	39.4
41-50 years	17	14.5
Over 50 years	11	9.3
Total	**119**	**100**

Source: Author, 2012

According to table 4.2, 39.4% of the respondents were aged between 31-40 years, 30.2% of the respondents were aged between 21-30 years, 14.5% of the respondents were aged between 41-50 years, 9.3% of them indicated that they were 50 years and above, while 6.7% of the respondents were aged below 20 years. The study findings show that the respondents were well distributed in terms of age and that they are active in technological advancements and productivity and hence can contribute constructively in this study on the effects of microfinance on financial sustainability of SMEs in Nairobi East District.

The study further sought to establish the highest academic qualifications attained by the respondents. The responses on this question are depicted in table 4.3.

Table 4.3: Level of Education

Level of Education	Frequency	Percent
Primary school	6	5
Secondary school	14	12
Certificate/diploma	38	32
University degree	48	40
Masters Degree	12	10
Doctorate Degree	1	1
Total	**119**	**100**

Source: Author, 2012

Majority (40%) of the respondents reiterated that they had acquired University degrees, 32% Certificate/diploma, 12% of them had attained a secondary school only, 10% of the respondents had attained Masters Degrees, another 5% of the respondents had primary school only, while 1% of them doctorate degrees.

The respondents were requested to indicate the length of time that the businesses have been operational.

Table 4.4: Length of Time that the Business have been Operational

Length of Time	Frequency	Percent
Less than 1 year	12	10
1-5 years	18	15
6-10 years	48	40
11-15 years	32	27
Over 15 years	10	8
Total	**119**	**100**

Source: Author, 2012

From the study, 40% of the business had been operating for a period of 6-10 years, 27% of the respondents indicated that their businesses had been in operation for a period of 11-15 years, 15% of them indicated that their businesses had operated for 1-5 years, another 10% of them had been in operation for a period of less than 1 year, while 8% of the SMEs studied had operated in the area for a period of over 15 years.

4.4 Effect of Microfinance on Financial Sustainability of SMEs

The study sought to establish how effective the various strategies were employed by MFIs in empowering SME businesses. As such a scale of 1 to 5 was provided where 1 was ineffective and 5 was very effective.

Table 4.5: Effectiveness of Strategies Employed by MFIs in Empowering SME Businesses

Strategies employed by MFIs in empowering SME businesses	Ineffective	Less effective	Moderately effective	Much effective	Very Effective	Mean	Std. Dev.
Increasing access to savings and credit for consumption and production (provision of financially self-sustainable micro-finance services applying the concept of group – lending)	3.8	5.3	27.8	18	45.1	3.95	1.13
Investment in social intermediation through SME's groups	12.5	12.5	18.8	18.8	37.5	3.37	1.20
Participatory approaches (Combining financial self sustainability and sustainability objectives)	2.1	16.7	10.4	60.4	8.3	3.62	1.00
Program-related strategies	0	0	54.2	41.7	4.2	3.50	.58
Focus organization's underlying vision on financial self sustainability	6.3	12.5	18.8	31.3	31.3	3.68	1.25
Making conditions of the microfinance more flexible to SME's aspirations	4	7	44	26	19	3.92	0.675
Creating ways for non-financial support and services (complementary services) to pay explicit attention to gender	0	7	15	37	33	4.04	0.808
Developing sustainable livelihoods, community development and social service provisions like literacy	0	11	22	44	30	4.02	0.843
Integrating gender awareness policies (gender equality and SME's human rights)	4	4	7	48	37	4.21	0.631

Source: Author, 2012

From the study, majority of the respondents reiterated that integrating gender awareness policies (gender equality and SME's human rights) are much effective as shown by a mean score of 4.21, creating ways for non-financial support and services (complementary services) to pay explicit attention to gender are much effective as shown by a mean score of 4.04, developing sustainable livelihoods, community development and social service provisions like literacy are much effective as shown by a mean score of 4.02, increasing access to savings and credit for consumption and production (provision of financially self-sustainable micro-finance services applying the concept of group – lending) are much effective as shown by a mean score of 3.95, making conditions of the microfinance more flexible to SME's aspirations are much effective as shown by a mean score of 3.92, focus organization's underlying vision on financial self sustainability are much effective as shown by a mean score of 3.68, participatory approaches (Combining financial self sustainability and sustainability objectives) are much effective as shown by a mean score of 3.62 and program-related strategies are much effective as shown by a mean score of 3.50, while investment in social intermediation through SME's groups is moderately effective in empowering SME businesses as shown by a mean score of 3.37.

4.4.1 Financial Sustainability in the SMEs

The respondents were further required to indicate how they would rate various aspects of financial sustainability in their SMEs where a scale of 1 to 5 was provided such that 1 was poor and 5 was excellent.

Table 4.6: Rating the various Aspects of Financial Sustainability in the SMEs

Aspects of Financial Sustainability in the SMEs	Poor	Bad	Average	Good	Excellent	Mean	Std dev
Sound Administration and Finance	8.2	11.9	48.7	28.3	3.0	3.06	0.92
Own Income Generation	8.9	12.6	45.7	26.8	5.9	3.08	0.993
Income Diversification	9.3	6.7	18.6	36.8	28.6	3.69	1.218
Financial and Strategic Planning	3.7	6.7	11.5	32	46.1	4.1	1.083
Indirect Cost Recovery Rate	2.6	4.5	12.3	32.3	48.3	4.19	0.992
Accounting Systems	1.5	5.6	8.6	30.1	54.3	4.3	0.948
Cash Flows	2.6	9.3	11.5	34.6	42	4.04	1.07
Profitability	4.5	19	27.5	37.9	11.2	3.32	1.045

Majority of the respondents indicated that accounting systems in their SMEs are good as shown by a mean score of 4.3, indirect cost recovery rate in their SMEs are good as shown by a mean score of 4.19 as well as financial and strategic planning shown by a mean score of 4.1,cash flows as shown by a mean score of 4.04 and income diversification as shown by a mean score of 3.69. They further reiterated that profitability in their SMEs is average as shown by a mean score of 3.32, own income generation in their SMEs is average as shown by a mean score of 3.08 and sound administration and finance in their SMEs is average as shown by a mean score of 3.06.

4.4.2 Savings and Financial Sustainability

The study was interested in finding out the length of time that the SMEs have been saving their incomes. The results are depicted in the table below.

Table 4.7: Length of time that the SMEs have been saving their incomes

Length of Time	Frequency	Percentage
Last one year	23	19
Last two years	69	58
More than two years	27	23
Total	**119**	**100**

Source: Author, 2012

The results shown in table 4.7 above show that 58% of the SMEs have been saving their income for the last two years, 23% of them have been saving their income for more than two years, while 19% of the respondents indicated that their SMEs have been saving their income for the last one year.

The study sought to establish the extent to which savings influence financial sustainability in the enterprises.

Table 4.8: Extent to which Savings influence Financial Sustainability in the Enterprises

Extent	**Frequency**	**Percent**
Very great extent	48	40
Great extent	33	28
Moderate extent	24	20
Little extent	12	10
Not at all	2	2
Total	119	**100**

Source: Author, 2012

From the study, 40% of the respondents indicated that savings influence financial sustainability in the enterprises to a very great extent, 28% of them indicated to a great extent, 20% of the respondents indicated to a moderate extent, 10% of the respondents indicated that savings influence financial sustainability in the enterprises to a little extent, while 2% of them to no extent.

The respondents were required to indicate the extent of their agreement with various statements in relation to savings and financial sustainability of SMEs.

Table 4.9: Agreement with Statements about Savings and Financial Sustainability of SMEs

Statements on Savings and Financial Sustainability of SMEs	**Strongly disagree**	**Partially Disagree**	**Agree**	**Strongly agree**	**Totally agree**	**Mean**	**STD. Dev.**
Amounts	3.8	5.3	27.8	18	45.1	3.95	1.13
Frequency	12.5	12.5	18.8	18.8	37.5	3.37	1.20
Most microfinance institutions offer savings services	2.1	16.7	10.4	60.4	8.3	3.62	1.00
Savings influence financial sustainability of SMEs positively	0	0	54.2	41.7	4.2	3.50	.58

Source: Author, 2012

The results in table 4.9 show that majority of the respondents agreed that amounts affects the financial sustainability of SMEs as shown by a mean score of 3.95, most microfinance institutions offer savings services as shown by a mean score of 3.62 and savings influence financial sustainability of SMEs positively as shown by a mean score of 3.50, while they remained neutral on that frequency affects the financial sustainability of SMEs as shown by a mean score of 3.37.

4.4.3 Credit and Financial Sustainability

The respondents were required to indicate their view on whether they benefit from loans from microfinance institutions.

Table 4.10: Whether the Enterprises benefit from Loans from Microfinance Institutions

Response	Frequency	Percentage
Yes	50	87.9
No	7	12.1
Total	57	100

Source: Author, 2012

Majority (87.9%) of the respondents indicated that their business enterprises benefit from loans from microfinance institutions, while only 12.1% of the respondents indicated otherwise.

The study sought to establish the reasons as to why the enterprises obtained loans from MFI's that made them to seek financial assistance from the MFI's.

Table 4.11: Reasons as to why the enterprises obtained loans from MFI's

Reasons	Frequency	Percentage
Easy loan repayment	36	30
Amount offered	32	27
Interest rate	51	43
Total	**119**	**100**

Source: Author, 2012

From the study, majority (43%) of the respondents indicated that their enterprises resorted to seeking financial assistance from the MFIs due to interest rate, 30% of the respondents indicated easy loan repayment, while 27% of them indicated that the amount offered triggered their enterprises to seek financial assistance from the MFIs. On others of the respondents indicated that business expansion and the need to increase production volume forced their enterprises to look for the financier. Other respondents indicated that their business enterprises sought for more than one financier to cover production cost, to improve on the performance of the business, to increase capital and to increase capital of the business.

The respondents were required to indicate the loan repayment period as per the conditions of MFI.

Table 4.12: Length of Time Allowed to Repay the MFI Loans

Loan Repayment Period	Frequency	Percentage
6 months-1 year	7	6
- 5 yrs	65	55
Above 5 yrs	47	39
Total	**119**	**100**

Source: Author, 2012

Majority of the respondents, shown by 55%, reiterated that the loan repayment period as per the conditions of the MFIs was between 1 and 5 years, 39% of them indicated over 5 years, while 6% of the respondents indicated that their enterprises were required to repay their loans within 6 months up to 1 year.

Table 4.13: Length of Time Taken to Repay the MFI Loan

Length of Time	Frequency	Percentage
1-3yrs	87	73
4 – 10 yrs	32	27
Total	**119**	**100**

Source: Author, 2012

The respondents were asked to indicate the length of time their enterprises have taken to repay the amount awarded by the MFI's. From the study, an overwhelming majority (73%) of the respondents indicated that they had paid the loan awarded for a period of 1 to 3 years, as compared to 27% of those who indicated that their enterprises had paid the MFI loan within a period of 4 to 10 years.

The respondents were required to indicate their opinion on the rate of the loan services offered by the MFI's.

Table 4.14: The rate of the loan services offered by the MFI's

Rating	Frequency	Percent
Fair	7	6.1
Good	65	54.5
Excellent	47	39.4
Total	**119**	**100**

Source: Author, 2012

From the study, 54.5% of the respondents indicated that the loan services offered by the MFI's were good, 39.4% rated the loan services offered by the MFI's as being excellent, while 6.1% ofthem rated the loan services offered by the MFI's as being fair.

The respondents were further required to indicate whether they face any challenges as a loan beneficiary from the MFI's.

Table 4.15: Challenges faced by the loan beneficiary from the MFI's

Response	Frequency	Percent
Yes	83	69.7
No	36	30.3
Total	**119**	**100.0**

Source: Author, 2012

From the study, 69.7% of the respondents indicated that they face challenges as a loan beneficiary from the MFI's, as compared to 30.3% of those who indicated that they do not face any challenges as a loan beneficiary from the MFI's.

4.4.4 Entrepreneurial Development

The study sought to establish the extent to which various aspects of entrepreneurial development influence financial sustainability in the enterprises.

Table 4.16: Entrepreneurial Development that influence Financial Sustainability in SMEs

Aspects of Entrepreneurial Development	No extent	Little extent	Moderate Extent	Great extent	Very great extent	Mean	Std. Dev.
Seminars	3.8	5.3	27.8	18	45.1	3.95	1.13
Workshops	11.3	0	18.8	20.3	49.6	3.9699	1.30813
Financial and management counseling	7.5	0	13.5	34.6	44.4	4.1579	0.92803

Source: Author, 2012

Majority of the respondents indicated that Financial and management counseling influence financial sustainability in the enterprises to a great extent as shown by a mean score of 4.1579, workshops influence financial sustainability in the enterprises to a great extent as shown by a mean score of 3.9699 as well as seminars o a great extent as shown by a mean score of 3.95.

The study finally sought to establish the respondents' level of agreement with various statements on the effect of microfinance on SME financial self sustainability in Nairobi East District.

Table 4.17: The Effect of Microfinance on SME Financial Self Sustainability

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. Dev.
Microfinance institutions prefer SME members as they believe that they are better and more reliable borrowers	4.2	8.3	29.2	54.2	4.2	3.46	0.88
Microfinance institutions mainly benefit the SME who are already better off, whereas the poor SME are either neglected because of their low resource base, lack of skills and market contacts	0	0	54.2	41.7	4.2	3.50	0.58
Microfinance enables poor SME to become economic agents of change by increasing their income and productivity, accessing markets and information and decision making power.	6.3	12.5	18.8	31.3	31.3	3.68	1.25
The entire process of internal savings and credit is backed by financial and management counseling, promotion of new avenues of employment and motivation for enhancement of earnings from the ongoing activities	2.3	27.1	6.8	41.4	22.6	3.54	1.17
Increasing SME's access to microfinance will enable SME to make a greater contribution to household income and thus will translate into improved well-being for SME and enable SME to bring about wider changes in gender inequality.	0	4.2	45.8	37.5	12.5	3.58	0.77

Source: Author, 2012

Accordingly, the respondents agreed that microfinance enables poor SME to become economic agents of change by increasing their income and productivity, accessing markets and information and decision making power as shown by a mean score of 3.68, increasing SME's access to microfinance will enable SME to make a greater contribution to household income and thus will translate into improved well-being for SME and enable SME to bring about wider changes in gender inequality as shown by a mean score of 3.58, the entire process of internal savings and credit is backed by financial and management counseling, promotion of new avenues of employment and motivation for enhancement of earnings from the ongoing activities as shown by a mean score of 3.54 and microfinance institutions mainly benefit the SME who are already better off, whereas the poor SME are either neglected because of their low resource base, lack of skills and market contacts as shown by a mean score of 3.50. However the respondents remained neutral on that microfinance institutions prefer SME members as they believe that they are better and more reliable borrowers as shown by a mean score of 3.46.

4.5 Inferential Analysis

To establish the relationship between the independent variables and the dependent variable of the study the study conducted inferential analysis which involved a coefficient of determination and a multiple regression analysis. Inferential analysis is utilized in this study to determine if there is a relationship between an intervention and an outcome, as well as the strength of that relationship. The inferential statistics analysis aimed to reach conclusions that extend beyond the immediate data alone between the independent variables in this study which included savings, credit and entrepreneurship development. The main focus was on the effect of microfinance on financial sustainability of SMEs in Nairobi East District, Kenya.

4.6 Multiple Regression Analysis

In addition, the researcher conducted a multiple regression analysis so as to determine the effect of microfinance on financial sustainability of SMEs in Nairobi East District, Kenya. Multiple regression is a statistical technique that allows us to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regression is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable.

The coefficient of determination is a measure of how well a statistical model is likely to predict future outcomes. The coefficient of determination, r^2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Financial sustainability of SMEs) that is explained by all the three independent variables (savings, credit and entrepreneurship development).

Table 4.18: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757(a)	.574	.533	.91241

Source: Author, 2012

From the findings 57.4% of the financial sustainability of SMEs is attributed to combination of the four independent factors (savings, credit and entrepreneurship development) investigated in this study. A further 42.6% of the financial sustainability of SMEs Kenya is attributed to other factors not investigated in this study.

4.7 Coefficient of Determination

Table 4.19: Multiple Regression Analysis

Factor	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	2.481	.946		2.623	.010
Savings	0.503	.076	.287	2.675	.009
Credit	0.820	.196	.012	.103	.018
Entrepreneurial development	0.420	.072	.130	1.145	.025

Source: Author, 2012

The regression equation, $Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$) becomes:

$$Y = 2.481 + 0.503X_1 + 0.820X_2 + 0.420X_3$$

Where Y is the dependent variable (financial sustainability of SMEs), X1 is the savings independent variable, X2 is the credit independent variable and X3 is entrepreneurial development.

From the regression equation established, taking all the factors (savings, credit and entrepreneurial development) constant at zero, the financial sustainability of SMEs would be 2.481. Further, if all the other variables are kept constant, a unit increase in savings will lead to a 0.503 increase in financial sustainability of SMEs. A unit increase in credit will lead to a 0.820 increase in financial sustainability of SMEs, while a unit increase in entrepreneurial development will lead to a 0.420 increase in financial sustainability of SMEs. These results imply that credit contribute more to the financial sustainability of SMEs followed by savings, while entrepreneurial development contributes the least to financial sustainability of SMEs.

4.8 Summary and Interpretation of Findings

The study found that the integrating gender awareness policies (gender equality and SME's human rights), creating ways for non-financial support and services (complementary services) to pay explicit attention to gender, developing sustainable livelihoods, community development and social service provisions like literacy, increasing access to savings and credit for consumption and production (provision of financially self-sustainable micro-finance services applying the concept of group – lending), making conditions of the microfinance more flexible to SME's aspirations, focus organization's underlying vision on financial self sustainability, participatory approaches (Combining financial self sustainability and sustainability objectives) and program-related strategies are effective tools of enhancing financial performance of the SMEs. This is in line with Sebstad and Cohen (2000) who observed that a key impact of microfinance is to help clients accumulate or retain physical assets and the assets are increased either through direct loan use, as a benefit of income smoothing, or through the use of profits generated through the investment of a loan. In addition, Cheston and Kuhn (2002) stated that micro financing for individuals aims to make their micro enterprises more financially rewarding this should contribute to a measure of economic empowerment within the family and in social and political spheres.

The study found that there was a strong positive relationship between credit and the financial sustainability of SMEs. This is similar to Hiedhues (1995) who stated that accessing credit is considered to be an important factor in increasing the development of SMEs. The study also established that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. The loan repayment period as per the conditions of the MFIs is usually little and the SMEs face challenges as loan beneficiaries from the MFI's. This concur with Navajas et al, (2000) that the main objective of microcredit according to is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Diagne and Zeller (2001) also argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

The study found that there was a strong positive relationship between savings and the financial sustainability of SMEs. This agrees with Guichandut (2006) that more MFIs are becoming interested in the potential of savings, thanks partly to the global financial crisis which has become a big boost to the SMEs. The study further found that the SMEs do not have a long history of saving culture. The savings have an influence on the financial sustainability of the enterprises, amounts, most microfinance institutions offer savings services and savings influence financial sustainability. This concur with Cheston and Kuhn (2001) findings that in an emergency, richer people might choose between dipping into their savings and borrowing. The choice for the great mass of the unbanked in the developing world is limited to whom to borrow from, often at great cost. That they can borrow at all is partly due to the rapid growth of microfinance, which specializes in lending small amounts to poor people (Guichandut, 2006).

The study found that there was a weak positive relationship between entrepreneurial development and the financial sustainability of SMEs. This is consistent with Guérin (2006) who observed that microfinance institutions need to supply services that fill the gaps and integrate the underserved group into the market. The study also established that financial and management counseling influence financial sustainability in the enterprises as well as workshops and seminars. Microfinance enables poor SME to become economic agents of change by increasing their income and productivity, accessing markets and information and decision making power, increasing SME's access to microfinance will enable SME to make a greater contribution to household income and thus will translate into improved well-being for SME and enable SME to bring about wider changes in gender inequality. This concur with Cheston and Kuhn (2001) that in any country, there are underserved enterprises and households, ranging from the ultra poor who may not be economically active, to small growing enterprises that provide employment in their communities.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The creation of SMEs generates employment but these enterprises are short live and consequently are bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. The link between microcredit and financial sustainability of SMEs, though repeatedly emphasized by donors and practitioners in conferences and summits, is a controversial area of empirical research. The purpose of the study was to find out the effect of microfinance on financial sustainability of SMEs in Nairobi East District.

This research problem was studied through the use of a causal research design. For logistical and budgetary concerns the researcher studied 1327 SMEs in Nairobi East District. This research study used purposive sampling technique and specifically the judgmental sampling method to select 132. Primary data was collected using questionnaires. The data was then analyzed using descriptive statistics. A multivariate regression model was applied to determine the relative importance of each of the variables with respect to financial self sustainability.

The study found that the integrating gender awareness policies (gender equality and SME's human rights), creating ways for non-financial support and services (complementary services) to pay explicit attention to gender. The study further concludes that the SMEs do not have a long history of saving culture. The savings have an influence on the financial sustainability of the enterprises, amounts, most microfinance institutions offer savings services and savings influence financial sustainability. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. The study finally concludes that financial and management counseling influence financial sustainability in the enterprises. The regression results imply that credit contribute more to the financial sustainability of SMEs followed by savings, while entrepreneurial development contributes the least to financial sustainability of SMEs. The study recommends that the MFIs should be quick to measure the success rate of SMEs by considering factors like high repayment, outreach and financial sustainability, but these may not be success if their activities do not reflect in the growth of SMEs. The financial institutions need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development.

5.2 Conclusions

The study concludes that the integrating gender awareness policies (gender equality and SME's human rights), creating ways for non-financial support and services (complementary services) to pay explicit attention to gender, developing sustainable livelihoods, community development and social service provisions like literacy, increasing access to savings and credit for consumption and production (provision of financially self-sustainable micro-finance services applying the concept of group – lending), making conditions of the microfinance more flexible to SME's aspirations, focus organization's underlying vision on financial self sustainability, participatory approaches (Combining financial self sustainability and sustainability objectives) and program-related strategies are effective tools of enhancing financial performance of the SMEs.

The study further concludes that the SMEs do not have a long history of saving culture. The savings have an influence on the financial sustainability of the enterprises, amounts, most microfinance institutions offer savings services and savings influence financial sustainability.

The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. The loan repayment period as per the conditions of the MFIs is usually little and the SMEs face challenges as loan beneficiaries from the MFI's.

The study finally concludes that financial and management counseling influence financial sustainability in the enterprises as well as workshops and seminars. Microfinance enables poor SME to become economic agents of change by increasing their income and productivity, accessing markets and information and decision making power, increasing SME's access to microfinance will enable SME to make a greater contribution to household income and thus will translate into improved well-being for SME and enable SME to bring about wider changes in gender inequality.

The regression results imply that credit contribute more to the financial sustainability of SMEs followed by savings, while entrepreneurial development contributes the least to financial sustainability of SMEs.

5.3 Policy Recommendations

There is some evidence that microfinance enables SMEs to be better placed to deal with shocks of the operating economic conditions hence financial sustainability. Micro-savings may be a better model of increasing financial sustainability through accumulated income among SMEs.

It is a fact that if credits are misapplied, SMEs will be unable to achieve business growth. This phenomenon is a bit worrying as the increase in this practice will defeat the goals of the MFIs and in the worst scenario make clients unable to repay their loans. The study therefore recommends that the MFIs should be quick to measure the success rate of SMEs by considering factors like high repayment, outreach and financial sustainability, but these may not be success if their activities do not reflect in the growth of SMEs. The MFIs have a great responsibility of ensuring the proper use of credit which is an important facility in business acceleration. To achieve this, credits should client-oriented and not product- oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

From the study microfinance institutions are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development of the financial sustainability of SMEs and the economy at large. The financial institutions need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development. The financial institution whose role needs to be visible in promoting SMEs growth and development is microfinance. SMEs themselves should be more receptive to new ideas and prepared to make financial commitments to ensure growth. This study recommends that guidelines by microfinance institutions to finance SMEs need to be flexible to accommodate the SMEs only when financial institutions appreciates and give technical assistant to the SME would be contributing to the SMEEIS to ensure success in the SME sector.

5.4 Limitations of the Study

The main limitations of this study were that some respondents refused to fill in the questionnaires. Further some respondents decided to withhold information which they considered sensitive and classified. This reduced the probability of reaching a more conclusive study. However, conclusions were made with this response rate.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations.

Some of the respondents were illiterate and had to be helped in interpretation of the questions and even persuaded to provide the required information. Time- Due to official duties time was a major concern.
Fear and victimization by respondents also limited the study. Some respondents were unwilling to divulge information for fear of victimization by the Saccos and their friends and finally slow pace of respondents also limited the study.

5.5 Suggestion for Further Studies

The study has investigated effect of microfinance on financial sustainability of SMEs in Nairobi East District, Kenya. The SMEs in Kenya are spread in various other areas where various financial institutions are found to offer microfinance to the SMEs. The study therefore recommends that further research be undertaken out with an aim of investigating effect of microfinance on financial sustainability of SMEs in various other counties in the Country where various enterprises are empowered financially through various types of microfinance services. Such a study would ensure generalization of the study findings for all the counties in Kenya and hence pave way for new policies.

The study recommends that further research should be done on the impact of MFIs on large businesses since their strategic approach and their financial footing is different from that of SMEs. Since savings mobilization was seen to be one of the objectives of the MFIs, the study recommends that a further study be done on the role of microfinance in mobilizing savings to achieve vision 2030. Further studies should be carried out on the determinants of regulatory compliance by the microfinance institutions in Kenya.

The study found that various SMEs continue to struggle with various challenges in their process of pursuing financial sustainability despite their involvement in the MFIs activities. These challenges have denied the SMEs a chance of realizing the benefits that would result from the micro-finance institutions. This study therefore recommends that a more comprehensive study be carried out with an aim to investigate the possible solutions to the challenges faced by SMEs in their endeavors of pursuing financial sustainability in Kenya.

An important factor that was found to affect the financial sustainability in SMEs is Credit. As such, easy loan repayment, amount offered and interest rate are likely to affect the financial sustainability of the enterprises. This study therefore recommends that another study should be done with an aim of investigating the effects of MFI credits on the financial sustainability of SMEs. Such an approach would uncover the various ways in which MFIs and other institutions can address customer needs which would in turn raise their financial sustainability.

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Appendix I: Questionnaire

Dear Madam,
I am a Master of Business Administration (MBA) at University Of Nairobi . The purpose of this Questionnaire is to collect data for academic purposes only. Information given shall be handled with the confidentiality it deserves.

Study topic; EFFECT OF MICROFINANCE ON FINANCIAL SUSTAINABILITY OF SMES IN NAIROBI EAST DISTRICT

PART A: GENERAL INFORMATION

1. Please tick on the number that best describes the range in which your age falls

Range	**Number**	**Range**	**Number**
Below 20 years	[1]	21-30 years	[2]
31-40 years	[3]	41-50 years	[4]
Over 50 years	[5]		

2. What is your highest formal qualification?

Level of Education	**Number**		
Primary school	[1]	Secondary school	[2]
Certificate/diploma	[3]	University degree	[4]
Masters Degree	[5]	Doctorate Degree	[6]
Others (specify…………..)	[7]		

3. How long have your business been operational?

Duration	**Option**		
Less than 1 year	[1]	1-5 years	[2]
6-10 years	[3]	11-15 years	[4]
Over 15 years	[5]		

PART B: EFFECT OF MICROFINANCE ON FINANCIAL SUSTAINABILITY OF SME

4. How effective are the following strategies employed by MFIs in empowering SME businesses? Use a scale of 1-5 where 1= ineffective and 5 = very effective

	1	2	3	4	5
Increasing access to savings and credit for consumption and production (provision of financially self-sustainable micro-finance services applying the concept of group – lending)					
Investment in social intermediation through SME's groups					
Participatory approaches (Combining financial self sustainability and sustainability objectives)					
Program-related strategies					
Focus organization's underlying vision on financial self sustainability					
Making conditions of the microfinance more flexible to SME's aspirations					
Creating ways for non-financial support and services (complementary services) to pay explicit attention to gender					
Developing sustainable livelihoods, community development and social service provisions like literacy					
Integrating gender awareness policies (gender equality and SME's human rights)					

5. How do you rate the following aspects of financial sustainability in your SME? Use a scale of 1-5 where 1= poor and 5 = Excellent

	1	2	3	4	5
Sound Administration and Finance					
Own Income Generation					
Income Diversification					
Financial and Strategic Planning					
Indirect Cost Recovery Rate					
Accounting Systems					
Cash Flows					
Profitability					

6. How long have you been saving?

Last one year [ ]

Last two years [ ]

More than two years [ ]

To what extent do savings influence financial sustainability in your enterprise?

To a very great extent [ ] To a great extent [ ]

To a moderate extent [ ] To a low extent [ ]

To no extent at all [ ]

7. To what extent do you agree with the following statements in relation to savings and financial sustainability of SMEs? Use a scale of 1-5 where 1= strongly disagree and 5 = strongly agree

	1	2	3	4	5
Amounts					
Frequency					
Most microfinance institutions offer savings services					
Savings influence financial sustainability of SMEs positively					

8. Do you benefit from loans from microfinance institutions?

   Yes [ ] No [ ]

If Yes, how

....

9. If you obtain loan from MFI's what made you to seek financial assistance from the MFI's
   a. Easy loan repayment [ ]
   b. Amount offered [ ]
   c. Interest rate [ ]

Others state...

10. What is the loan repayment period as per the conditions of MFI?

a. 6 months-1 year [ ]

b. - 5 yrs [ ]

c. Above 5 yrs [ ]

11. How long has it taken you to repay the amount awarded to you by the MFI's (tick one)

a) 1-3yrs [ ]

b) 4 – 10 yrs [ ]

12. How do you rate the loan services from the MFI'S? (Tick one)

Poor [ ] Good [ ]

Moderate [ ] Very good [ ]

Excellent [ ]

13. Do you face any challenges as a loan beneficiary from the MFI's? (tick one)

Yes [ ] No [ ]

If yes state...

14. To what extent do the following aspects of entrepreneurial development influence financial sustainability in your enterprise?

	To a very great extent	To a great extent	To a moderate extent	To a low extent	To no extent at all
Seminars					
Workshops					
Financial and management counseling					

15. What is your level of agreement with the following statements on the effect of microfinance on SME financial self sustainability in Nairobi East District? Use a scale of 1-5 where 1= strongly disagree and 5 = strongly agree

	1	2	3	4	5
Microfinance institutions prefer SME members as they believe that they are better and more reliable borrowers					
Microfinance institutions mainly benefit the SME who are already better off, whereas the poor SME are either neglected because of their low resource base, lack of skills and market contacts					
Microfinance enables poor SME to become economic agents of change by increasing their income and productivity, accessing markets and information and decision making power.					
The entire process of internal savings and credit is backed by financial and management counseling, promotion of new avenues of employment and motivation for enhancement of earnings from the ongoing activities					
Increasing SME's access to microfinance will enable SME to make a greater contribution to household income and thus will translate into improved well-being for SME and enable SME to bring about wider changes in gender inequality.					

THANK YOU!