EFFECT OF MICRO FINANCE SERVICES ON FINANCIAL PERFORMANCE MICRO AND SMALL ENTERPRISES IN NAIROBI, KENYA

HASSAN ALI IDOW

D63/9920/2018

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT FOR THE REQUIREMENT OF THE AWARD OF MSC (FINANCE) OF THE UNIVERSITY OF NAIROBI

NOVEMBER, 2020

DECLARATION

I, the undersigned, declare that this research project is my original work and that it has not been presented in any other university or institution for academic credit.

Signature ..... Date 12/01/2020

HASSAN ALI IDOW

D63/9920/2018

This research project has been submitted for presentation with my approval as the University supervisor.

Signature ..... Date 12/01/2020

DR. KENNEDY OKIRO

DEDICATION

To Jephneah Mutua for the support he accorded me during development of this project.

ACKNOWLEDGMENT

I thank Allah for giving me the opportunity and grace to complete this research project. I appreciate my super, Dr. Kennedy Okiro for the encouragement and support that helped me to clear this research.

TABLE OF CONTENTS

DECLARATION ii
DEDICATION iii
ACKNOWLEDGMENT iv
LIST OF TABLES vii
LIST OF FIGURES viii
ABBREVIATIONS AND ACRONYMS ix
ABSTRACT x
CHAPTER ONE: INTRODUCTION 1
1.1 Background of the Study 1
1.1.1 Micro Finance Services 2
1.1.2 Financial Performance 3
1.1.3 Micro Finance Services and Financial Performance 4
1.1.4 Micro and Small Enterprises in Kenya 5
1.2 Research Problem 6
1.3 Research Objectives 7
1.4 Value of the Study 8
CHAPTER TWO: LITERATURE REVIEW 9
2.1 Introduction 9
2.2 Theoretical Review 9
2.2.1 Resource Based View 9
2.2.2 Theory of Financial Deepening 10
2.2.3 Financial Intermediation Theory 10
2.3 Determinants of Financial Performance of Micro-Small Enterprises 11
2.3.1 Micro Credit Facilities 11
2.3.2 Micro-Saving Services 12
2.3.3 Micro-Insurance Services 12
2.3.4 Firm Size 13
2.4 Empirical Review 13
2.5 Conceptual Framework 16
2.6 Summary of Literature and Research Gaps 17
CHAPTER THREE: RESEARCH METHODOLOGY 18
3.1 Introduction 18
3.2 Research Design 18
3.3 Population 18
3.4 Data Collection 18
3.5 Data Analysis 19
3.5.1 Model Specification 19
3.5.2 Test of Significance 19

3.5.3 Diagnostic Tests 20
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION 21
4.1 Introduction 21
4.2 Response Rate 21
4.3 Organizational Information 22
4.4 Trend Analysis of Financial Performance 23
4.5 Products and services offered by Micro finance Institutions among Micro-Small Enterprises 24
4.5.1 Loan Products and Services 24
4.5.2 Saving Products and Services 26
4.5.3 Insurance Products and Services 27
4.6 Diagnostic Tests 28
4.6.1 Autocorrelation Test using Durbin Watson 28
4.6.2 Multicollinearity Test using Variance of Inflation Factors 29
4.6.3 Graphical Illustration of Normality using Normal PP Plot 30
4.6.4 Graphical Testing of Heteroskedasticity 31
4.7 Relationship between Microfinance Services and Financial Performance of Micro-Small Enterprises 32
4.8 Effect of Micro Finance Services on Financial Performance of Micro-Small Enterprises 33
4.8.1 Model Summary 33
4.8.2 Analysis of Variance 34
4.8.3 Regression Beta Coefficients and Significance 35
4.9 Discussion 37
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 40
5.1 Introduction 40
5.2 Summary of the Findings 40
5.3 Conclusion 41
5.4 Recommendations of the Study 42
5.5 Limitations of the Study 43
5.6 Suggestions for Further Research 43
REFERENCES 44
APPENDICES 51
Appendix I: List of Microfinance Institutions in Kenya 51
Appendix II: Questionnaire 52

LIST OF TABLES

Table 2.1: Summary of Literature and Research Gaps 17
Table 4.1: Response Rate 21
Table 4.2: General Information 22
Table 4.3: Loan Products and Services 25
Table 4.4: Saving Products and Services 26
Table 4.5: Insurance Products and Services 27
Table 4.6: Autocorrelation Test using Durbin Watson 28
Table 4.7: Multicollinearity Test using Variance of Inflation Factors 29
Table 4.8: Correlation Results 32
Table 4.9: Model Summary 33
Table 4.10: Analysis of Variance 34
Table 4.11: Regression Beta Coefficients and Significance 35

LIST OF FIGURES

Figure 2.1: Conceptual Framework 16
Figure 4.1: Trend Analysis on Financial Performance 23
Figure 4.2: Graphical Illustration of Normality using Normal PP Plot 30
Figure 4.3: Graphical Testing of Heteroskedasticity 31

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
MF	Microfinance
MFIs	Microfinance Institutions
MSEs	Micro and Small Enterprises
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SACCOs	Savings and Credit Cooperatives
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
VIF	Variance of Inflation Factor

ABSTRACT

Micro finance services have attracted attention among scholars because it has been widely acknowledged as a poverty alleviation policy as well as program. Traditionally, larger financial institutions have been reluctant to advance financial services to the poor because of the relatively high risks involved resulting into a financial gap. Majority of the MSEs do face challenges especially in regard to access to financial services from larger financial institutions including commercial banks. Because of their relative small sizes, most commercial banks consider lending to MSEs as being too risky. The implication of this decision to lend to MSEs by banks is that the operations of most of them are constrained hence poor performance. Thus, most of the MSEs have turned to MFIs as financial partners which has piled up pressure on MFIs for seeking funds. The present inquiry focused on micro finance services and their link with the ability of the Micro-Small Enterprises (MSEs) in Kenya to financially perform. Specifically, the study looked at the products and services that MFIs offer among MSEs and the link between them with the ability of the firms to perform financially. Descriptive survey design was adopted targeting 100 MSEs. Census was used with gathering of information from primary and auxiliary sources. The processing of the gathered data was done aided by SPSS tool using frequencies and percentages. Inferential statistics covering correlation and regression analysis were conducted prior to diagnostic tests. The study noted that Micro finance Institutions offered loan/credit services and products, saving services and products and insurance services to MSEs. The microfinance services offered to MSEs were seen to have a postive effect and relationship with financial performance as controlled by their sizes. The study concluded that MFIs play an important intermediation role in the economy by availing credit facilities to small business that are used to enhance their financial performance. The study recommended that marketing managers of the MFIs should expand the product offering to bring in more new products that are customized for small businesses. The marketing managers of the MFIs in Kenya should invest heavily in promotion and advertisement of loan and insurance product that they offer customers. The finance managers and owners of the MSEs in Nairobi to seek for more credit and loan facilities from MFIs and ensure that the amount is utilized for the purpose of enhancing financial performance of their enterprise. The risk managers of the MSEs operating in Nairobi to increase underwriting of risks with MFIs as this enhances financial performance of their enterprises especially in the event of a calamity. The CBK should formulate stable policies that promote and support the microfinance services and products. The study was limited to a small sample size that affected generalization of the results to other non MSEs firms. The study recommend further studies to be done to bring out the services and products offered by deposit taking Savings and Credit Cooperatives (SACCOs) as they link with financial performance of the small firms. Future studies can also be conducted by singling out firms specifically in the SME category.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Within a limited period of time, micro finance concept has gained relevance and popularity in Finance literature because of a number of reasons. First, micro finance avail customized credit facilities to the poor members of the society (Amsi, Ngare, Imo & Gachie, 2017). The repayment options on loan facilities from most micro finance are flexible and friendly to borrowers. The other reason emerges from the fact that micro finance is easily accessible by borrowers with little documentation for borrowers (Goedecke, D'Espallier, Mersland & Leuven, 2016). Through micro finance, a number of services are offered to clients including savings, credit facilities, training and advisory services to businesses and entrepreneurs, financial literacy skills to owners of businesses, insurance services as well as mentoring. All these micro finance services result into proper performance of an organization in terms of increased sales and profitability (Thrikawala, Locke & Reddy, 2017).

The following theories; the resource based view theory, the theory of financial intermediation and the theory of financial deepening provided anchorage to the study. Resource based view (RBV) argues that resources are key sources of competitive advantage in the firm hence financial performance (Barney, 1991). These resources can be in terms of finances, skilled personnel as well as physical facilities. Thus, most of the micro finance services can be recognized as resources that entities can leverage on to remain competitive in the industry (Barney, 1991). The theory of financial deepening by Shaw (1973) indicate that financial deepening is key in ensuring that credit facilities is available to firm which enhance financial performance. According to the financial intermediation theory, micro finances are recognized as financial intermediaries that

helps firms to access credit facilities for financial performance (Gurley, Enthoven & Shaw, 1960).

Micro Small Enterprises (MSEs) are the key engine for the growth of the economies. For instance, MSEs created about 80% of jobs in Kenya for the year 2014. Most of the MSEs in Kenya do engage in informally recognized operations which account for about 3% to the GDP of the country (KNBS, 2019). However, there are constraints encountered by small firms including inability to access funds because of their relative sizes which affect their financial performance. For instance, a total of 2.2 million MSEs closed down their operations between the periods from 2011 all through to 2016 (CBK, 2013). Most banks have shied away from lending to these MSEs because of the risk involved. It is only micro finance institutions that have emerged as a rescue to these MSEs which calls for the need of the current study.

1.1.1 Micro Finance Services

Micro finance is a practice of ensuring that the unbanked people have access to savings as well as credit facilities. The unbanked in this context refers to the financially excluded and the poor members of the society. Most of the micro finance customers have traditionally been secluded by banks for lack of collaterals and inadequate amount to invest. Cozarenco, Hudon and Szafarz (2016) consider micro finance as a tool for development that ensure people have access to financial products and services like small credit facilities, micro-insurance, micro-leasing, savings as well as professional; mentorship and training services for management of business. Daher and Le Saout (2015) indicates that micro finances are more evident in developing countries where small firms like the MSEs have limited chances of getting credit from larger financial institutions. Lensink, Mersland, Vu and Zamore (2018) view micro finance service as the ability to provide financial services to clients with low level of income that comprise of the

self-employed individuals. Micro finance as a service or product is usually offered by Micro finance institutions (MFIs).

Micro finance services can be recognized based on their financial as well as social intermediation role in an economic system (Niaz & Iqbal, 2019). The financial intermediation aspect of micro finance covers provision of credit, savings, micro-insurance and micro-leasing products to customers. On the other hand, the social intermediation role of micro finance include provision of training and advisory services, financial literacy, market development as well as enhancing managerial skills and capabilities of members (Wijesiri, Yaron & Meoli, 2017). Micro finance has been recognized as a step towards reduction in poverty and inequality among people in the community. Most microfinance program cover group lending schemes that are key in their success of banking to the poor. The two key means through which micro finance can ensure that the poor access credit facility include relationship based banking (that applies to small firms and individual entrepreneurs) as well as group-based schemes and models where individuals jointly unite to apply for credit facilities from micro finance institutions (Randøy, Strøm & Mersland, 2015).

1.1.2 Financial Performance

To perform is general and it incorporates both financial as well as non-financial constructs. Bryce (2017) noted that the ability of the firm to perform in financial terms can be reflected in different indicators including the value of returns generated by the firm on either the asset base of the equity portion. According to Nwanyanwu (2017), financial performance is realized after thorough inquiry in the statements of financial position or the income statements of an entity that are prepared at the end of every financial year of the entity.

Analysis of the ratio is key when it comes to establishment and determination of how the entity performs. These ratios include the returns generated by the entity on equities (ROE) or assets (ROA) (Brüggen, Hogreve, Holmlund, Kabadayi & Löfgren, 2017). The essence of ROE is to gauge the ability of the entity to realize revenues by leveraging on the equities in place while ROA brings out the essence of leveraging on the assets in the entity to realize income (Epstein, Buhovac & Yuthas, 2015). All these are done to optimize on the wealth of the owners of the entity.

1.1.3 Micro Finance Services and Financial Performance

Micro finance services have been associated with reduction in poverty and inequalities in distribution of income while ensuring that low income individual's actively participate in ownership of businesses (Lopatta, Tchikov, Jaeschke & Lodhia, 2017). Micro finance institutions are particularly relevant in less developed economies where they ensure that the low income individuals have access to the required credit facilities for creation of income generating projects and businesses (Muturi & Rotich, 2016). Theoretically, micro finance is seen as an important engine for financial performance of an organization. Microfinance ensures that the low members of the society have access to credit facilities, savings, mentorship and professional training and investment advisory services. All these micro finance products and services are vital for financial performance of an organization (Haider, Officer, Asad, M., Fatima & Abidin, 2017).

Empirically, a Chole (2017) established that savings from MFIs institutions directly impact on the ability of the enterprise to perform in financial dimensions. Cull and Morduch (2017) established that micro finance and the ability of the entity to perform are directly and significantly linked with each other. AmsiNgare, Imo and Gachie (2017) established that micro

finance and the ability of the entity to perform are directly linked in significant terms. Thus, it can be inferred that a link is in place between micro finance and the degree which an enterprise perform especially in financial aspects. However, García- Pérez et al. (2018) argued that the interaction between microfinance and the ability of the entity to perform is not implicit.

1.1.4 Micro and Small Enterprises in Kenya

There exists no consensus on how micro and small enterprises (MSEs) should be classified from one country to the other. According to Petrakis and Kostis (2012), MSEs comprise of 10-50 employees. In Kenya, MSEs help in generating employment opportunities and thus improving the growth of the economy. For instance, the Kenyan Economic survey report (2013) showed that a total of 660,000 new job opportunities were created within the year 2012. From these opportunities, 90% were drawn from MSEs. Infact, MSEs are recognized as the greatest engine for the growth of the economy. It is estimated that about 3% of the GDP in Kenya is derived from these MSEs (CBK, 2018).

In spite of this significance of MSEs to the growth of the economy, most of them have continually faced challenges including inability to access credit from large financial institutions. Most commercial banks consider lending to MSEs as being too risky considering their relative sizes. Thus, to meet their expansion needs, most MSEs have turned to micro finance as an alternative avenue. Indeed, micro finance has played an important role as far as MSEs are concerned. Some of the reasons that have forced most MSEs to turn to MFIs for financing include flexibility of the credit facilities and other services offered by MFIs, the relative small sizes of MSEs which limits their ability to access funds from larger financial institutions and the ability of MFIs to offer customized financial as well as social intermediation services. This is what informs the need for the current study,

1.2 Research Problem

Micro finance services have attracted attention among scholars because it has been widely acknowledged as a poverty alleviation policy as well as program (Bourlès & Cozarenco, 2018). Micro finance services have been associated with reduction in income inequality between the poor and the rich people in emerging and developing economies. Traditionally, larger financial institutions have been reluctant to advance financial services to the poor because of the relatively high risks involved resulting into a financial gap (Abdullah & Quayes, 2016). To fill these gaps, micro finance services have been used embraced as a policy instruments that ensures the poor people have access to credit, insurance, savings, leasing as well as training and professional development services required for financial performance of their firms (Meyer, 2015).

In Kenya, Micro Small Enterprises play an important role by opening up employment opportunities, contributing towards revenue generation to the government through taxation and positively increasing the level of Gross Domestic Product (GDP) (CBK, 2018). However, majority of these MSEs are currently facing challenges especially in regard to access to financial services from larger financial institutions including commercial banks. Because of their relative small sizes, most commercial banks consider lending to MSEs as being too risky. The implication of this decision to lend to MSEs by banks is that the operations of most of them are constrained hence poor performance. Thus, most of the MSEs have turned to MFIs as financial partners which has piled up pressure on MFIs for seeking funds.

Various empirical inquiries have been conducted that are relevant to this specific study. For instance, in Nepal, Adhikari and Shrestha (2013) assessed the economic influence of micro finance and a direct link was noted. In Ethiopia, KiflieHayleeyesus (2016) looked at MFIs and how they help in reduction of poverty and a significant interaction was identified. However,

these studies were conducted in other countries and not in Kenya hence bringing about contextual gap.

Locally in Kenya, Kibet, Achesa and Omwono (2015) looked at the role played by micro-credit on SMEs performance and revealed that low income people rely more on such services from MFIs. Kalui and Omwansa (2015) studied the influence of the products by MFIs on the ability of the firm to perform in financial terms. The study established that the products offered by MFIs have an influence on firm performance. Omondi and Jagongo (2018) studied the role played by micro finance services and their connection with the degree which an enterprise performs. Although these studies were carried out in Kenya, some of them looked at performance as a whole and not specifically financial performance hence a conceptual gap.

Thus, from the studies above, it is clear that some of them were carried out in other countries like Nepal and Ethiopia and not in Kenya. Other studies looked only related micro finance with organizational performance and not specifically financial performance. These result into contextual as well as conceptual gap respectively. To fill these gaps, the current study sought to answer the following research questions; what is the effect of microfinance services on financial performance of Micro Small Enterprises in Nairobi, Kenya.

1.3 Research Objectives

i. To establish the products and services offered by Micro finance Institutions (MFIs) among Micro-Small Enterprises in Nairobi, Kenya
ii. To asses relationship between Microfinance services and financial performance of Micro-Small Enterprises in Nairobi , Kenya

1.4 Value of the Study

To the management of MSEs, the study may highlight the need for increased borrowing among MFIs so as to enhance on their financial performance. To the management team of the MFIs, the results may inform the need to come up with a strategy on how to increase lending to MSEs for improved financial performance.

The study may have implications on policy makers including the CBK. In Kenya, CBK is responsible for formulation of regulations that guide the operations of the entire banking sector the MFIs included. The CBK may draft and actualize relevant regulations that encourage more lending to MSEs by MFIs for the growth of the economy as a whole.

The study may add to the existing theories on micro finance and the link it has with the degree which an entity performs. At the same time, the study may increase the available literature on micro finance which important for effective decision making. Scholars carrying out similar studies in future may review the literature of this inquiry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The essence of this chapter is to bring out the literature on microfinance and the degree which an enterprise performs. The review begins with the theories that will anchor the inquiry and the past empirical inquiries. The associated gaps and diagrammatic illustration of the study constructs are also well elaborated.

2.2 Theoretical Review

The study was guided by three theories namely the resource based view theory, the theory of financial deepening as well as the financial intermediation theory.

2.2.1 Resource Based View

It is Barney (1991) who advanced this resource based view theory and its main argument is that the degree which an entity remains competitive is informed by its use of the resources in place. In general, a firm may have either tangible or intangible resources that are important for gaining of competitive advantage. Some good example of intangible resources includes intellectual; properties, the brand name and copyrights and trademarks (Montgomery, 2011).

Ideally, the RBV majorly focuses on internal features of the firms' that are important ion enhancing the competitive positioning of the organization. The unique features and attributes of the resources form the basis of competition among firms. However, for firms to leverage on resources to gain competitive advantage, Holland (2004) argues that the resources in place must be rare and they should not be easily be substituted. The theory's relevance to the study come from the fact that micro finance avails the required resources including the financial, skill sets

and other social services that are vital for competitive advantage and thus performance of an organization.

2.2.2 Theory of Financial Deepening

It was Shaw (1973) who advanced this theory and it is used to provide the link between access to credit facilities and the degree which an entity performs. The assumption of this theory is that financial deepening is the required condition for the economy to realize growth (Bakang, 2015). It is also assumed that through financial deepening, an economy is able to ensure that credit is available for enterprises to borrow. The theory argues that when there is soundness and efficiency in the financial sector, the level of available liquidity would be higher besides the savings mobilized from enterprises (Mohan, 2006).

In line with these sentiments, Srikanth (2013) noted that small entities enjoy largely from the credit facilities they receive from the MFIs. Given the fact that majority of the smaller firms do lack adequate collaterals, banks find this hard to advance credit to them. This is in addition to these smaller firms being perceived as being highly risky (Karimo & Ogbonna, 2017). Thus, to fill these gaps, MFIs have emerged strongly to advance credit facilities to the smaller entities for continuity and growth (Obafemi, Oburota & Amoke, 2016). Microfinance is one way of enhancing financial deepening hence ensuring that credit facilities are available to small businesses required for the day to day operations.

2.2.3 Financial Intermediation Theory

Gurley, Enthoven and Shaw (1960) are the ones who proposed this theory and it outlines how the banking entity creates for the economy. The theory regards the banking entities including the MFIs as intermediaries and thus they have an intermediation role to act. It is proposed from this

theory that it is important to deposit the surplus units with the financial enterprises like MFIs so that they are supplied to the deficit units. There are four basic intermediaries as shared by Bisignano (1998) which include deposits covering a fixed as well as long term period and those on demand besides the assets and liabilities in place. It can be argued that the essence of intermediation is to ensure that there is a steady flow of credit facilities from a unit that has surplus to the one where there are shortages in the economy (Seven & Yetkiner, 2016).

The essence of financial intermediation is to make sure this creation of the customized financial products in the economy. Such products are what are generally viewed as financial assets which are priced above the overall expenses (Maggiori, 2017). However, this is affected by presence of information asymmetry that is largely seen in financially established markets. The collective term that is used to describe the financial entities like the MFIs is the financial intermediaries (Céspedes, Chang & Velasco, 2017). Intermediation is an integral component of reduction of the costs of transaction and the expenses of accessing information. The existing asymmetries in the market all result into a rise in these costs (Greenbaum, Thakor & Boot, 2019). Thus, sound functioning of the financial markets is informed by financial intermediation in the economy (Spence, 1973). On the basis of this theory, the MFIs play an intermediation role in the economy by ensuring that credit facilities have been availed to small entities.

2.3 Determinants of Financial Performance of Micro-Small Enterprises

The section looks at credit facilities, savings, insurance services as well as size.

2.3.1 Micro Credit Facilities

Micro credit refers to a number of loan facilities that lending institutions especially the MFIs offer their customers. Access to credit is one of the issues that MSE face as it regards limited

growth and performance (Tchakoute-Tchuigoua & Soumaré, 2019). Loans from most MFIs have flexible interest rates with flexible repayment periods. This is contrary to the amount of credit that commercial banks charge since in most cases, most large financial institutions do not readily lend to these small business (Chen, Chang & Bruton, 2017). There exits several proxies and measures of micro credit facilities. For instance, Vingo (2012) and Tehuru, (2013) measured micro credit using the natural logarithm of the amount of credit advanced to customers.

2.3.2 Micro-Saving Services

Saving is setting aside a specified amount of money which is to be utilized at a given time in future. Khachatryan (2013) adds that saving can be done either on a compulsory or voluntary basis. The available savings products as well as the amount deposited in accounts add up to total deposits in a financial institution. Savings results from a reduction in consumption, that is when the amount consumed is more, less is saved.

Saving has been recognized as key in making investment decisions. This is because people save what they have invested. The more the savings, the greater the investments in future and this positively earn revenue to businesses as well as individuals. The amount of money saved can be kept at home or it can be deposited in financial institutions. Nasrin, Rasiah, Baskaran and Masud (2018) opine that saving is a necessary precondition for businesses seeking to borrow funds in future for investment from financial institutions.

2.3.3 Micro-Insurance Services

Insurance is an important mechanism of mitigating inherent risks of the business. Most MFIs render insurance services that covering underwriting of risk and mobilizing funds through premiums mostly on investments extending for a long time horizon (Murigu, 2014). The

insurance products that MFIs offer customer are classified into health as well as life product. Other MFIs offer insurance services by partnering with banks and other insurance firms (King'ori, Kioko & Shikumo, 2017). Onduso (2014) looked at the forces behind penetration of micro insurance in Kenyan context and established knowledge as one of these factors. Micro insurance is measured in a number of ways.

2.3.4 Firm Size

The size of the firm is based on a number of indicators including asset base, employees in place, the branch network, the sales revenue and the relative market share in the industry (Cobb, Wry & Zhao, 2016). Larger firms are associated with some advantages including ease of accessibility to credit and availability of credit facilities. On the contrary, smaller firms are believed to have limited opportunities for growth and thus perform relatively lower than their larger counterparts. In this study, firm size will be measured using the natural logarithm of overall assets (Akanmu, Clement & Samaila, 2018).

2.4 Empirical Review

KiflieHayleeyesus (2016) studied the influence of MFIs on alleviation of poverty using a case of Ethiopia. The study involved testing of hypotheses and thus a casual design was embraced. To models were used in the study; institutionalists model and welferists model. It was noted that MFI inform alleviation of poverty in the economic system. Okibo and Makanga (2014) looked at the influence of MFIs on reduction of poverty in Kenyan context. Sampling was conducted using stratified techniques. The analysis of the findings was carried out qualitatively and quantitatively. The study established that MFIs help in reducing poverty since it allows the poor members of the society to access credit facilities.

Chole (2017) examined the effect of services offered by MFIs and their influence on SMEs performance. A total of 210 SMEs were studied. The analyzed findings indicated that MFIs services have significant influence on firm performance. Cull and Morduch (2017) looked at the role played by MFIs on development of economies. This was an empirical examination where data was collected from past studies. It was documented that MFIs have a postive influence on economic growth of a country.

Duvendack et al. (2011) looked at micro finance and how it impacts on the well-being of the poor members of the society. The study was carried out in Bangladesh. This was also an empirical study where evidence was gathered by reviewing past articles and journals. The findings indicated that microfinance is important in reducing poverty levels in the country. Amsi, NgareImo and Gachie (2017) studied microfinance credit and its influence on financial performance using a Kenyan case. A total of 210 SMEs were targeted and sampling was conducted through stratified methods. The analysis of the findings indicated that microfinance has postive and significant influence on firm performance.

Kibet, Achesa and Omwono (2015) studied microfinance credit and its influence on performance of SMEs in Kenyan case. A total of 5,000 business owners were targeted by the study and an ex-post design was adopted. Sampling of respondents was conducted using simple random techniques. A direct and significant link was noted between the study variables. Kalui and Omwansa (2015) analyzed the influence of MFI products and their influence on degree which the Kenyan smaller firms performed. In total, 372 SMEs were sampled and included in the study. It was shared that the products offered by MFIs to SMEs have significant influence on extent that entities meet their goals.

Omondi and Jagongo (2018) looked at MFI services as they linked with the need for the smaller entities to perform. Data collection was carried out using questionnaires hence it was primary in nature. The findings indicated that MFI services have postive and significant influence on firm performance. Tresa (2018) looked at MFI related services and their link with the ability of the enterprises to perform. The variables of the study included credit facilities, availing financial literacy, managerial skills development and market facilitation. It was indicated that MFIs play an important role by ensuring that credit facilities are accessible to the poor and the less banked people in the society.

Kamau and Kalio (2012) looked at lending from MFIs and how it influence business performance. Specifically, the study used a case of SMEs in Kenyan context. Sampling was conducted using stratified techniques. Questionnaire helped in gathering of the information for the inquiry. It was shared that lending by MFIs has positive and significant influence on performance. Onyango (2011) looked MFIs and the degree which small entities grow. The variables of the study included seed capital, financial skills training, role model and savings mobilization. Sampling was carried out using stratified techniques where a total of 72 firms were covered. To collect data, questionnaires were used. The findings indicated that MFIs have positive influence on growth of firms.

2.5 Conceptual Framework

Figure 2.1 is used to illustrate variables of the study.

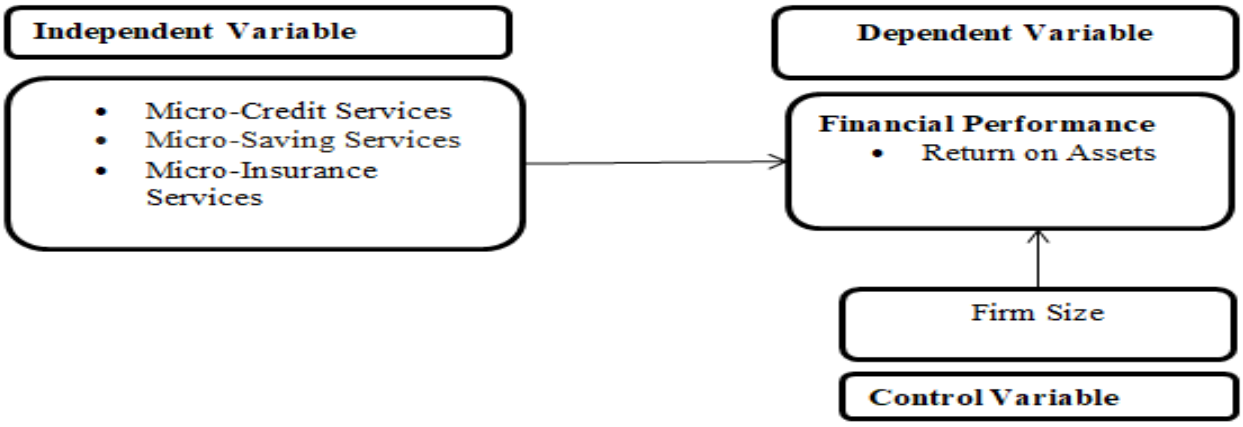

Figure 2.1: Conceptual Framework

Source; Author (2019

2.6 Summary of Literature and Research Gaps

The gaps that the study filled are shown in Table 2.1.

Table 2.1: Summary of Literature and Research Gaps

Author	Study	Key Findings	Research Gap
Onyango (2011)	The influence of MFIs on growth of SMEs.	MFIs have postive influence on growth of firms	The study focused on growth of SMEs and not their financial performance
KiflieHayleeyesus (2016)	The influence of MFIs on alleviation of poverty using a case of Ethiopia	MFIs play an important role as far as alleviation of poverty is concerned	The study was carried out in Ethiopia and not in Kenya
Omondi and Jagongo (2018)	MFI services and their influence on SME performance in Kenyan context	MFI services have postive and significant influence on firm performance	The study looked at performance as a whole and not specifically financial performance
Tresa (2018) looked	The role played by MFI services on performance of SMEs in Kenyan context.	MFIs play an important role by ensuring that credit facilities are accessible to the poor and the less banked people in the society	Performance was studied as a whole and not specifically financial performance
Kibet, Achesa and Omwono (2015)	Microfinance credit and its influence on performance of SMEs in Kenyan case	micro credit has postive and significant influence on financial performance	The study covered performance as a whole and not specifically financial performance

Source; Author (2020)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter sought to bring out the type of design that was embraced and the targeted respondents. The means used to gather the views of the participants are also detailed with how these opinions were processed.

3.2 Research Design

The adopted design shapes how the formulated research questions of the study shall be answered (Creswell, 2003). The descriptive survey design was embraced in this inquiry to actualize the formulated objectives. This design was important as far as establishing the role played by MFI services is concerned.

3.3 Population

The study targeted 100 MSEs in Nairobi Central Business District. Since the population was small, census was used and thus all the 100 firms were studied. Use of census enabled the researcher to get detailed information about these MSEs.

3.4 Data Collection

Information for the inquiry was obtained from first hand and auxiliary sources. The questionnaire was formulated for collecting primary data. Each firm was issued with one questionnaire that was addressed to the finance manager. Besides primary data, secondary data was collected by the same respondents covering the period of 2015-2019. Secondary data was collected on net income and the assets of the firms so as to determine their ROA and size.

3.5 Data Analysis

The findings were analyzed descriptively and inferentially. More specifically, frequencies and percentages were the descriptive statistics that supported the analysis. On the other hand, correlation and regression analysis were the specific inferential statistics.

3.5.1 Model Specification

$$Y=\beta_0+\beta_1X_{1+}\beta_2X_{2+}\beta_3X_3+\beta_4X_{4+}\ \varepsilon$$

Where **Y** = Financial Performance ([ROA=Net Income/Total Assets] of MSEs)

X_1= Micro-Credit Services (Natural logarithm of loans advanced to MSEs by MFIs)

X_2 = Micro-Saving Services (Natural logarithm of MSE deposits with MFIs)

X_3= Micro-Insurance Services (Natural logarithm of insurance underwritten by MFIs)

$X_{4=}$ Firm Size (Natural Logarithm of Asset Base of MSEs)

3.5.2 Test of Significance

The significance of the study variables was established based on the p-values. In this regard, a comparison of the actual p-values of the study was done with 0.05 (5%) as the threshold. When the p-values was found to be less than 0.05, the inference drawn was that the variable was significant.

3.5.3 Diagnostic Tests

The specific diagnostic tests included normality tests, multicollinearity test, autocorrelation as well as Heteroskedasticity. To test for normality, the study used graphical method covering the Normal PP Plots. Multicollinearity was tested with the help of Variance of Inflation Factor (VIF). For testing of heteroskedasticity, Scatter plots were used. Durbin Watson Statistics was used for testing autocorrelation.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter is set out to present the findings of the analysis from the data that was gathered in the field on MF services and the ability of the entity to perform financially. The gathered data was processed by being edited in the excel and then it was exported to the SPSS tool for analysis. The results are as summarized in subsequent sections.

4.2 Response Rate

A total of 100 SMEs operating in Nairobi were targeted and administered with the questionnaire. The questionnaire was sent online through email to the finance managers or equivalent staff from these firms. However, 65 questionnaires were completed filled and returned giving a response rate of 65% as presented in Table 4.1.

Table 4.1: Response Rate

	Frequency	**Percentage**
Response	65	65
Non Response	35	35
Total	**100**	**100**

Source: Field Survey Data (2020)

Thus, the study recorded a response rate of 65% which was against the expected rate of above 70%. This relatively low response rate recorded in the study could be attributed to such factors as the Corvid-19 pandemic in Kenya. However, Mugenda and Mugenda (2003) argued that a response rate of over 60% is deemed to be good for presentation of the results.

4.3 Organizational Information

The general information on the firms covering the years of their operations, the nature of their products and the staff in place was sought. The findings were established and summarized in Table 4.2.

Table 4.2: General Information

Category	Classification	Frequency	Percentage
Years of Operations	3-5 years	9	13.8
	6-9 years	34	52.3
	More than 10 years	22	33.8
	Total	**65**	**100.0**
Nature of Products	Financial services	16	24.6
	Real estate services	15	23.1
	Insurance services	2	3.1
	Manufacturing	8	12.3
	Other	24	36.9
	Total	**65**	**100.0**
Number of Staff	Below 10 staff	26	40.0
	11-20 years	13	20.0
	21-30 staff	16	24.6
	Over 30 staff	10	15.4
	Total	**65**	**100.0**

Source: Field Survey Data (2020)

Table 4.2 indicates that while 52.3% of the firms studied had in operations for 6-9 years, 33.8% had operated for over 10 years and 13.8% for 3-5 years. This implies that the studied firms had operated for a relatively longer time and the current study sought to establish whether their operations within this period had been supported by microfinance services. The study noted that the firms dealt in different products where 36.9% of the firms offered technology related

services, manufacturing/production, health services, education services, security, construction and consultancy. At the same time, 24.6% of the firms offered financial services, 23.1% offered real estate survives while12.3% offered manufacturing and 3.1% had insurance services. This means that the studied firms were drawn from different sectors and thus diverse findings were probably sought from them. The findings in Table 4.2 further depict the findings on the number of staff in the studied firms. From the findings, while 40.0% of the firms had less than 10 staff, 15.4% had over 30 staff, 24.6% had 21-30 staff, and 20.0% had 11-20 staff. This implies that the studied firms were in the micro and small categories of operation. .

4.4 Trend Analysis of Financial Performance

ROA was the proxy of the dependent study variable. To determine ROA, the study collected secondary data on net incomes and total assets for the firms over a five year period (2015-2019). The secondary data collected was inputted into excel software where a graph depicting the trend within the time period was extracted as indicated in Figure 4.1.

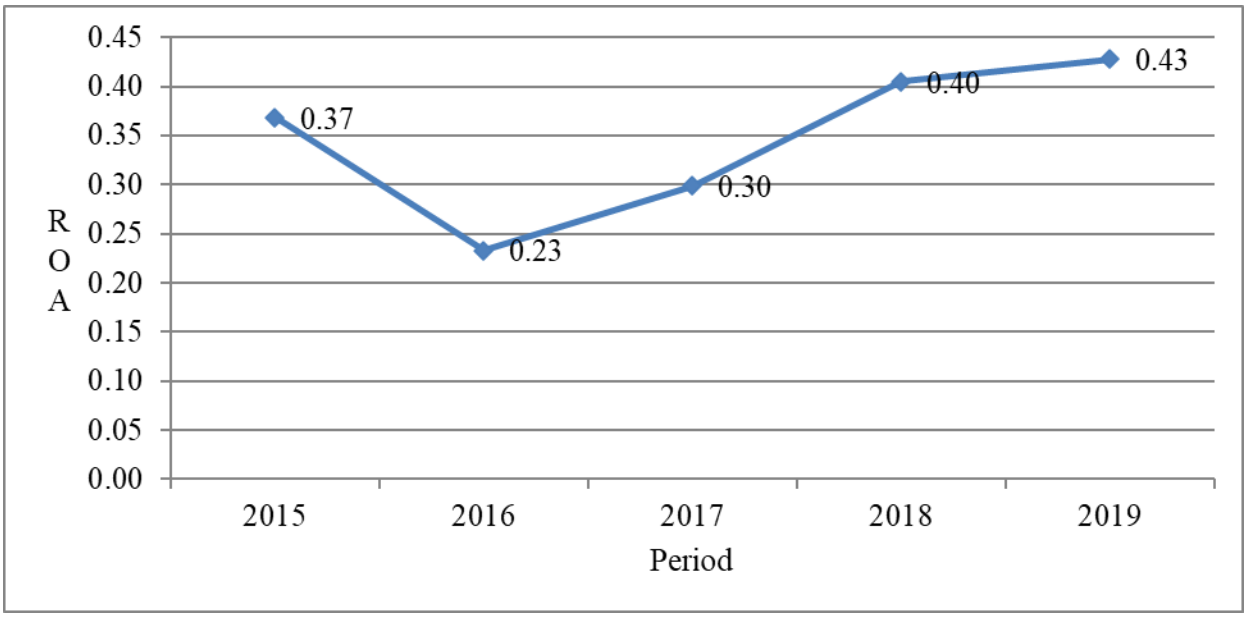

Figure 4.1: Trend Analysis on Financial Performance

Source: Field Survey Data (2020)

As indicated in Figure 4.1, ROA as a measure of financial performance of the studied firms moved at an increasing trend across the five year period of consideration. The year 2016 was characterized by poor financial performance of these firms after which they picked up and consistently strived to enhance their financial performance.

4.5 Products and services offered by Micro finance Institutions among Micro-Small Enterprises

This section presents the results on the products and the services that MFIs offered their clients.

4.5.1 Loan Products and Services

The study sought to establish whether MFIs advanced loan and other credit facilities to the MSEs. The findings are summarized in Table 4.3.

Table 4.3: Loan Products and Services

Category	Classification	Frequency	Percentage
Have your firm accessed loan/credit facilities from Microfinance institutions over the last five years (2015-2019)?	Yes	59	90.8
	No	4	6.2
	I don't know	2	3.1
	Total	**65**	**100.0**
If yes in question 4 above, kindly tick the average amount of credit/loan facility your firm has accessed from the microfinance institutions over the past five years (2015-2019). Use the scale below to indicate your appropriate response.	Less than 0.5 Million	25	38.5
	0.5-1 million	24	36.9
	1-5 million	10	15.4
	5-10 million	5	7.7
	More than 10 million	1	1.5
	Total	**65**	**100.0**

Source: Field Survey Data (2020)

From Table 4.3, it can be shown that 90.8% of the studied firms had accessed loan and other credit facilities from MFIs. More specifically, 38.5% of the studied firms had accessed loan facilities from MFIs to a tune of less than Kshs. 500,000 while 36.9% had accessed loan of Kshs. 500,000 to 1 million. This means loan and credit facilities are some of the products and services that MFIs offer the small firms.

4.5.2 Saving Products and Services

Respondents were further asked to indicate whether their firms maintained deposits and savings in the MFIs especially after generating the revenues from sales. The findings were established and summarized as indicated in Table 4.4.

Table 4.4: Saving Products and Services

Category	Classification	Frequency	Percentage
Does your firm maintain a saving/deposit account with any Microfinance institutions in Kenya?	Yes	60	92.3
	No	3	4.6
	I don't know	2	3.1
	Total	**65**	**100.0**
If yes in question 5 above, kindly indicate the average amount of savings/deposits that your firm has maintained with the microfinance institutions in Kenya over the past five years (2015-2019).	Less than 1 million	38	58.5
	1-5 Million	18	27.7
	5-10 million	6	9.2
	10-15 million	2	3.1
	More than 10 million	1	1.5
	Total	**65**	**100.0**

Source: Field Survey Data (2020)

The results in Table 4.4 indicate that 92.3% of the firms studied had savings with the MFIs in terms of deposits. The results further indicated that majority of the firms (58.5%) had less than Kshs. 1 million savings with the MFIs while 27.7% had 1-5 million. This means that MFIs provide saving product for the small firms. It could be from these savings maintained by the small firms that they are able to borrow from these MFIs.

4.5.3 Insurance Products and Services

The study sought further to establish whether the firms had underwritten the risk with some of these MFIs. Underwriting of risk especially at the business level is important because of uncertainties in the future. The findings were established and they are as presented in Table 4.5.

Table 4.5: Insurance Products and Services

Category	Classification	Frequency	Percentage
Has your firm sought for insurance services from the microfinance institutions over the past five years (2015-2019)?	Yes	52	80.0
	No	8	12.3
	I don't know	5	7.7
	Total	**65**	**100.0**
If yes in question 6 above, kindly indicate the average value of insurance risk with your institution has underwritten with the microfinance institutions in Kenya over the past five years (2015-2019).	Less than 5 million	17	26.2
	5-10 Million	31	47.7
	10-15 million	9	13.8
	15-20 million	5	7.7
	More than 20 million	3	4.6
	Total	**65**	**100.0**

Source: Field Survey Data (2020)

As indicated in Table 4.5, it can be seen that 80.0% of the firms studied had sought for insurance services from the MFIs. More specifically, it can be shown from Table 4.5 that 47.7% of the firm had insured their business with MFIs to a tune of 5-10 million while 26.2% for less than 5 million. This infers that majority of the MFIs probably work closely with insurance companies as they perhaps network clients seeking loan facilities to take up insurance services.

4.6 Diagnostic Tests

Diagnostic tests were conducted to test for the assumptions of regression analysis. The specific diagnostic tests that were conducted include multicollinearity, autocorrelation, test for normality and heteroskedasticity test. The findings are as presented in subsequent sections.

4.6.1 Autocorrelation Test using Durbin Watson

The study using Durbin Watson to test for the presence of autocorrelation in the data and the findings are as summarized in Table 4.6.

Table 4.6: Autocorrelation Test using Durbin Watson

Model	Durbin-Watson
1	2.101[a]

a. Predictors: (Constant), Firm Size, Insurance Product, Saving Products, Lending Products

b. Dependent Variable: ROA

Source: Field Survey Data (2020)

From Table 4.6, it can be shown that Durbin Watson value is 2.101, which a clear indication that there was no serial correlation in the data. This meant that the data was suitable for performing inferential statistics.

4.6.2 Multicollinearity Test using Variance of Inflation Factors

Multicollinearity was determined using VIF values and the findings are as indicated in Table 4.7.

Table 4.7: Multicollinearity Test using Variance of Inflation Factors

	Collinearity Statistics	
	Tolerance	**VIF**
Lending Products	.885	1.130
Saving Products	.936	1.068
Insurance Product	.936	1.068
Firm Size	.999	1.001

a. Dependent Variable: ROA

Source: Field Survey Data (2020)

The results in Table 4.7 signify absence of multicollinearity in the data, since all the VIF values are within the threshold of 1-10. This means that the data was suitable for regression analysis.

4.6.3 Graphical Illustration of Normality using Normal PP Plot

Normality of the data was determined graphically using normal PP plot and the findings are as summarized in Figure 4.2.

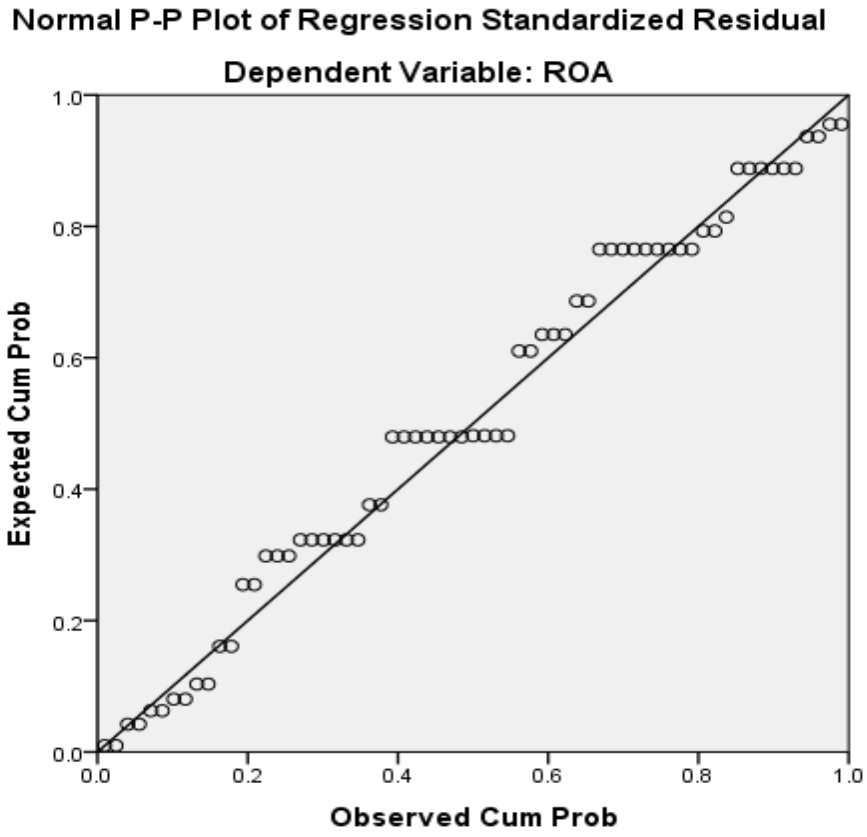

Figure 4.2: Graphical Illustration of Normality using Normal PP Plot

Source: Field Survey Data (2020)

The distribution of the observations as shown in Figure 4.2 indicates that the data was normally distributed. By being normally distributed, it can be inferred that the data was suitable for carrying out regression analysis.

4.6.4 Graphical Testing of Heteroskedasticity

Heteroskedasticity was determined using the Scatter Plot and the results are indicated in Figure 4.3.

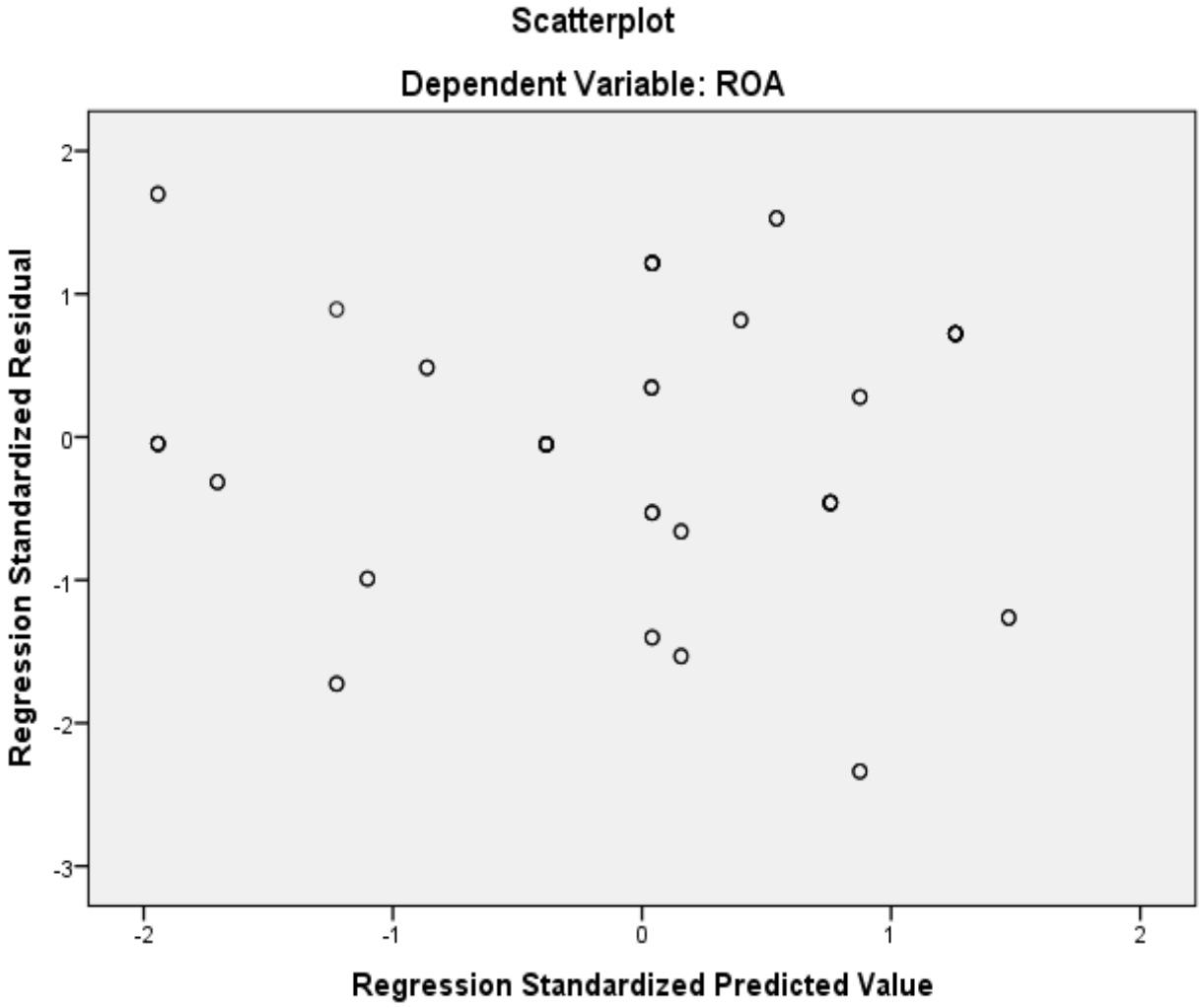

Figure 4.3: Graphical Testing of Heteroskedasticity
Source: Field Survey Data (2020)

The distribution of the observations between residual and predicted values signify absence of Heteroskedasticity and thus probably presence of homoskedasticity which is desirable for regression modeling.

4.7 Relationship between Microfinance Services and Financial Performance of Micro-Small Enterprises

Actualization of the second objective of the inquiry entailed the use of correlation analysis as depicted in Table 4.8.

Table 4.8: Correlation Results

		ROA	Lending Products	Saving Products	Insurance Product	Firm Size
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	65				
Lending Products	Pearson Correlation	.395**	1			
	Sig. (2-tailed)	.001				
	N	65	65			
Saving Products	Pearson Correlation	.334**	.236	1		
	Sig. (2-tailed)	.007	.058			
	N	65	65	65		
Insurance Product	Pearson Correlation	.586**	.235	.031	1	
	Sig. (2-tailed)	.000	.059	.807		
	N	65	65	65	65	
Firm Size	Pearson Correlation	.066	.025	.018	.009	1
	Sig. (2-tailed)	.603	.841	.889	.946	
	N	65	65	65	65	65

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey Data (2020)

From the findings in Table 4.8, it can be shown that lending products and services offered by MFIs have postive relationship with the ability of the enterprise to perform financially (r=0.395). At the same time, the saving products and services by MFIs were found to be positive correlates of the ability of the enterprise to perform financially (r=0.334). Table 4.8 further illustrates that the insurance services and products offered by MFIs had strong and positive relationship with the degree which MSEs perform in financial dimension. The link between size and the ability of the enterprise to perform was weak and postive (r=0.066).

4.8 Effect of Micro Finance Services on Financial Performance of Micro-Small Enterprises

Realization of the general objective called for the use of regression analysis with the evidence presented in subsequent sections.

4.8.1 Model Summary

Consider Table 4.9

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.755[a]	.569	.548	1.14601	.569	26.891	3	61	.000
2	.758[b]	.574	.546	1.14938	.005	.643	1	60	.426

a. Predictors: (Constant), Insurance Product, Saving Products, Lending Products
b. Predictors: (Constant), Insurance Product, Saving Products, Lending Products, Firm Size

Source: Field Survey Data (2020)

Table 4.9 indicates two models of regression analysis. The first model is used to predict the effect of microfinance services when the controlling effect of firm size had not been included. Therefore, based on model 1, the value of R is 0.755 which indicate strong link between the services that MFIs offer and the ability of the entities to perform financially. The R square value is 0.569, which indicates that the model was fit. The adjusted R square value for model 1 is given as 0.548, which means that 54.8% variability in the degree which MSEs perform financially is explained by variation in MF services and products offered to them without controlling for their sizes. However, on controlling for size in model 2, the adjusted R square becomes 0.546, with change in R square being 0.005. This change in R square could be as a result of the controlling effect of the size of the MSEs.

4.8.2 Analysis of Variance

Consider Table 4.10 for the ANOVA findings.

Table 4.10: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	105.948	3	35.316	26.891	.000[b]
	Residual	80.113	61	1.313		
	Total	**186.062**	**64**			
2	Regression	106.798	4	26.699	20.211	.000[c]
	Residual	79.264	60	1.321		
	Total	**186.062**	**64**			

a. Dependent Variable: ROA
b. Predictors: (Constant), Insurance Product, Saving Products, Lending Products
c. Predictors: (Constant), Insurance Product, Saving Products, Lending Products, Firm Size

Source: Field Survey Data (2020)

Table 4.10 indicates two models of ANOVA. From Model 1, the value of F calculated is 26.891 with p-value being $p<0.05$. Model 2 indicate the value F calculated as 20.211 with $p<0.05$. Based on the results in model 12 and model 2, it can be inferred that the services that MFIs offer and the ability of the entities to perform are significantly linked with each other.

4.8.3 Regression Beta Coefficients and Significance

Consider Table 4.11 for the model coefficients

Table 4.11: Regression Beta Coefficients and Significance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23.765	3.020		7.870	.000
	Lending Products	.460	.109	.377	4.224	.000
	Saving Products	.275	.059	.408	4.697	.000
	Insurance Product	.308	.055	.485	5.586	.000
2	(Constant)	26.742	4.791		5.581	.000
	Lending Products	.458	.109	.375	4.191	.000
	Saving Products	.276	.059	.409	4.691	.000
	Insurance Product	.308	.055	.486	5.581	.000
	Firm Size	.572	.713	.068	.802	.426

a. Dependent Variable: ROA

Source: Field Survey Data (2020)

Table 4.11 reports two models of the beta coefficients and significance. The predicted equations based on the two models become:

$Y=23.765+.460X_1+.275X_2+.308X_3$……. (I)

$Y=23.765+.460X_1+.275X_2+.308X_3+.572X_3$……..……. (II)

Where

Y=Financial Performance

X_1= Lending Products

X_2= Saving Products

X_3= Insurance Product

X_4= Firm Size

Table 4.11 indicates that before controlling for firm size while relaxing other constructs, the degree of MSEs' to financially perform would be equivalent to 23.765. A unit change increase in lending products and services offered by MFIs would lead to 0.460 unit increase in financial performance of MSEs in Nairobi. A unit increase in saving products by MFIs would lead to 0.275 unit increase in financial performance of the MSEs. A unit increase in insurance products and services offered by MFIs while holding other factors constant would result into 0.308 unit increase in financial performance of the MSEs. However, on introducing the control variable, it was noted a unit change in firm size when holding other variables constant would lead to 0.572 unit increase in ability of the MSEs to perform financially. Taking the level of significance as 5%, it was shown that the lending products and services ($p<0.05$), saving services and products ($p<0.05$) and insurance services and products ($p<0.05$) offered by the MFIs all were significantly linked with the ability of the MSEs to financially perform. On the other hand, firm size ($p<0.05$) did not significantly affect the MSEs' ability of the MSEs to perform.

4.9 Discussion

The study had a general objective and two specific objectives. The first specific objective sought to establish the products and services offered by Micro finance Institutions (MFIs) among Micro-Small Enterprises in Nairobi, Kenya. From the findings, 90.8% of the studied firms had accessed loan and other credit facilities from MFIs where 38.5% had accessed loan facilities from MFIs to a tune of less than Kshs. 500,000 while 36.9% had accessed loan of Kshs. 500,000 to 1 million. This means that loan and credit facilities are some of the products that MFIs advanced to their clients including the MSEs. Tchakoute-Tchuigoua and Soumaré (2019) noted that access to credit is one of the issues that MSE face as it regards limited growth and performance. Chen, Chang and Bruton (2017) indicated that loans from most MFIs have flexible interest rates with flexible repayment periods. This is contrary to the amount of credit that commercial banks charge since in most cases, most large financial institutions do not readily lend to these small business. It was shown that 92.3% of the firms studied had savings with the MFIs in terms of deposits where majority of the firms (58.5%) had less than Kshs. 1 million savings with the MFIs while 27.7% had 1-5 million. This implies that saving is one of the services and products that MSEs access from the MFIs. As noted by Nasrin *et al.* (2018), saving is a necessary precondition for businesses seeking to borrow funds in future for investment from financial institutions

It was noted that 80.0% of the firms studied had sought for insurance services from the MFIs where 47.7% of the firm had insured their business with MFIs to a tune of 5-10 million while 26.2% for less than 5 million. The implication of this finding is that MFIs offer insurance services and products to the MSEs maybe through partnership with other insurance firms. These findings are supported by Murigu (2014) who noted that most MFIs render insurance services

that covering underwriting of risk and mobilizing funds through premiums mostly on investments extending for a long time. Similarly, King'ori *et al.* (2017), the insurance products that MFIs offer customer are classified into health as well as life product. Other MFIs offer insurance services by partnering with banks and other insurance firms.

From the findings, all the identified products and services offered by MFIs were found to have postive relationship but with varying magnitude on MSEs' degree which they perform financially. These results are consistent with several past empirical studies. For instance, Cull and Morduch (2017) documented that MFIs have a postive influence on economic growth of a country. Amsi *et al.* (2017) indicated that microfinance has postive and significant influence on firm performance. Kibet *et al*. (2015) shared a postive link between micro credit and the ability of the entity to perform financially. Omondi and Jagongo (2018) found out that MFI services have postive and significant influence on firm performance. Kamau and Kalio (2012) indicated that lending by MFIs has postive and significant influence on performance. Onyango (2011) revealed that MFIs have postive influence on growth of firms. Kalui and Omwansa (2015) established that the products offered by MFIs have an influence on firm performance.

Based on ANOVA findings, it was shown that microfinance services and the ability of the MSEs to perform are significantly linked with each other. All the resultant p-values of the constructs of microfinance services and products were all significant. Consiste4nt with these views, AmsiNgare et al (2017) established that micro finance has an influence on firm performance. KiflieHayleeyesus (2016) confirmed that in deed, MFIs play an important role as far as alleviation of poverty is concerned. Okibo and Makanga (2014) established that MFIs help in reducing poverty since it allows the poor members of the society to access credit facilities. Chole (2017) indicated that MFIs services have significant influence on firm performance.

Duvendack et al. (2011) indicated that microfinance is important in reducing poverty levels in the country. Kalui and Omwansa (2015) showed that the products offered by MFIs to SMEs have significant influence on financial performance of the firm. Tresa (2018) noted that MFIs play an important role by ensuring that credit facilities are accessible to the poor and the less banked people in the society.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

A summary of the analyzed findings is presented in this chapter. The conclusions and recommendations are also provided. The limitations of the study and the areas requiring further research are also pointed out in this chapter.

5.2 Summary of the Findings

It was shown that 90.8% of the studied firms had accessed loan and other credit facilities from MFIs where 38.5% had accessed loan facilities from MFIs to a tune of less than Kshs. 500,000 while 36.9% had accessed loan of Kshs. 500,000 to 1 million. It was shown that 92.3% of the firms studied had savings with the MFIs in terms of deposits where majority of the firms (58.5%) had less than Kshs. 1 million savings with the MFIs while 27.7% had 1-5 million. It was noted that 80.0% of the firms studied had sought for insurance services from the MFIs where 47.7% of the firm had insured their business with MFIs to a tune of 5-10 million while 26.2% for less than 5 million.

From the findings, all the identified products and services offered by MFIs were found to have postive relationship but with varying magnitude on the degree which the MSEs perform. From the findings, lending/loan products from the MFIs had the largest effect on ability of the firm to perform followed by insurance services and products and lastly the savings services and products. On controlling for firm size, there was a change in the value of R square in the regression model signifying that the size of the firm controls that interaction between MFI services and products and financial performance of the business. However, in terms of significance, only the dimensions of MFI had their p-values less than 0.05, meaning they were significant. Firm size ($p>0.05$) hence it was non-significant. .

5.3 Conclusion

Financial intermediation and inclusion are two important aspects of stable financial systems that promote the growth of the economy. The study has demonstrated that MFIs play an important role towards financial intermediation in the economy. The MFIs have been noted to support the growth of the economy especially by providing customized credit facilities particularly to smaller firms. Aside from providing credit, it has been shown that MFIs provide saving and insurance services and products to smaller firms. These views are consistent with the financial intermediation theory that was formulated by Gurley, Enthoven and Shaw (1960). Risk is an inevitable and unforeseen circumstance that has some probability of occurring in future. Risk cannot be avoided but it can only be mitigated. Hence, when MFIs partner with other insurance firms to underwrite the insurance risks of the MSEs, it helps in promoting financial performance of these small firms.

It has been noted that the intermediation role played by the MFIs go a long way to positively impacting on financial performance of the MSEs. This assertion is consistent with the financial deepening theory was formulated and developed by Shaw (1973). This theory view availability of credit facilities as a precondition for the growth of the economy. The study showed that the various products and services that MFIs offer customers have different effect on ability of the enterprise to perform. For instance, lending/loan products from the MFIs had the largest effect on financial performance of the MSEs followed by insurance services and products and lastly the savings services and products. Such MFI services and products can be viewed in terms of resources that are required by the recipient firm in order to enhance on their financial performance. Viewing such products and services advanced by the MFIs to clients as resources is supported by the Resource based views (RBV) that was advanced by Barney (1991). Under the

RBV, firms are said to leverage on their resources (which may include the financial resources from, MFIs) to gain competitive advantage and thus financial performance.

5.4 Recommendations of the Study

The study identified three crucial products and services that MFIs offer to their clients to include loan, saving and insurance. Based on this finding, the study recommends that the marketing managers of the MFIs should expand the product offering to bring in more new products that are customized for small businesses. MFIs should leverage on innovation and technologies to develop new products that would expand the portfolio for businesses to select from. The marketing managers of the MFIs in Kenya should invest heavily in promotion and advertisement of loan and insurance product that they offer customers.

The results of regression beta coefficient indicated that lending/loan products from the MFIs had the largest effect on financial performance of the MSEs followed by insurance services and products and lastly the savings services and products. Based on this finding, the study recommends that the finance managers and owners of the MSEs in Nairobi to seek for more credit and loan facilities from MFIs and ensure that the amount is utilized for the purpose of enhancing realization of the goals. The risk managers of the MSEs operating in Nairobi to increase underwriting of risks with MFIs as this enhances financial performance of their enterprises especially in the event of a calamity. The CBK help in promoting stability and resilience of the entire banking system in the country. In light of the findings, this study recommends that CBK should formulate stable policies that promote and support the microfinance services and products.

5.5 Limitations of the Study

Conceptually, microfinance services and financial performance were explored in this inquiry. The study covered three MF services and products covering loan facilities, saving and insurance services. To account for the controlling effect, the study incorporated the size of the firm. Therefore, three variables were covered in this study including the independent, the dependent and the control variable.

Contextually, the study was limited to MSEs, specifically those operating in Nairobi. In total, 100 MSEs were targeted and census was adopted hence all of these firms were studied. However, the sample size in itself was a limitation since it affected generalization of the findings to others firms like the medium sized enterprises.

5.6 Suggestions for Further Research

Based on the aforementioned limitations further research is recommended on the role played by MF services on other aspects like operational performance or efficiency. Apart from the MFI service, further research should be done to validate the services and products offered by deposit taking Savings and Credit Cooperatives (SACCOs) on financial performance of the small firms. This will give room for comparison of the findings and thus informed decision making with regard to the means of financing for the smaller firms.

The study recommends further studies to be done covering other firms away from the MSEs. These other firms could include the medium sized enterprises and even the larger firms especially those listed at the Nairobi Security Exchange (NSE). Future studies can also be conducted by singling out firms specifically in the SME category.

REFERENCES

Abdullah, S., & Quayes, S. (2016). Do women borrowers augment financial performance of MFIs?. *Applied Economics*, *48*(57), 5593-5604.

Adhikari, D. B., & Shrestha, J. (2013). Economic impact of microfinance in Nepal: A case study of the Manamaiju Village Development Committee, Kathmandu. *Economic Journal of Development Issues*, 36-49.

Akanmu, P. M., Clement, J. O., & Samaila, M. (2018). Impact of Cooperative Microfinance on the Performance of Women Entrepreneurship in Kwara State Nigeria.

Amsi, F., Ngare, P., Imo, P., & Gachie, M. (2017). Effect of microfinance credit on SMEs financial performance in Kenya. *Journal of Emerging Trends in Economics and Management Sciences*, *8*(1), 48-61.

Amsi, F., Ngare, P., Imo, P., & Gachie, M. (2017). Effect of microfinance credit on SMEs financial performance in Kenya. *Journal of Emerging Trends in Economics and Management Sciences*, *8*(1), 48-61.

Avortri, C., & Wereko, T. B. (2016). The Effect of Services of Micro Financial Institutions on their Financial Performance: A View from Ghana. *International Journal of Scientific Research and Innovative Technology*, *3*(7), 25-42.

Bakang, M. L. N. (2015). Effects of financial deepening on economic growth in Kenya. *International Journal of Business and Commerce*, *4*(7), 1-50.

Bourlès, R., & Cozarenco, A. (2018). Entrepreneurial motivation and business performance: evidence from a French microfinance institution. *Small Business Economics*, *51*(4), 943-963.

Céspedes, L. F., Chang, R., & Velasco, A. (2017). Financial intermediation, real exchange rates, and unconventional policies in an open economy. *Journal of International Economics*, *108*, S76-S86.

Chen, J., Chang, A. Y., & Bruton, G. D. (2017). Microfinance: Where are we today and where should the research go in the future?. *International Small Business Journal*, *35*(7), 793-802.

Chole, L. (2017). *Effect Of Services Offered By Microfinance Institutions On Performance Of Micro And Small Enterprisesin Kariobangi Light Industry In Nairobi, Kenya* (Doctoral dissertation, KCA University).

Cobb, J. A., Wry, T., & Zhao, E. Y. (2016). Funding financial inclusion: Institutional logics and the contextual contingency of funding for microfinance organizations. *Academy of Management Journal*, *59*(6), 2103-2131.

Cozarenco, A., Hudon, M., & Szafarz, A. (2016). What type of microfinance institutions supply savings products?. *Economics letters*, *140*, 57-59.

Cull, R., & Morduch, J. (2017). Microfinance and economic development.

Daher, L., & Le Saout, E. (2015). The determinants of the financial performance of microfinance institutions: Impact of the global financial crisis. *Strategic Change*, *24*(2), 131-148.

Duvendack, M., Palmer-Jones, R., Copestake, J. G., Hooper, L., Loke, Y., & Rao, N. (2011). What is the evidence of the impact of microfinance on the well-being of poor people?.

García- Pérez, I., Muñoz- Torres, M. J., & Fernández- Izquierdo, M. Á. (2018). Microfinance institutions fostering sustainable development. *Sustainable Development*, *26*(6), 606-619.

Goedecke, J., D'Espallier, B., Mersland, R., & Leuven, K. U. (2016). On the Measurement of Social Performance in Microfinance.

Greenbaum, S. I., Thakor, A. V., & Boot, A. W. (2019). *Contemporary financial intermediation*. Academic Press.

Haider, S. H., Officer, C. S., Asad, M., Fatima, M., & Abidin, R. Z. U. (2017). Microfinance and Performance of Micro and Small Enterprises; Does Training have an Impact. *indicators*, *4*(1).

Hitt, M. A., Carnes, C. M., & Xu, K. (2016). A current view of resource based theory in operations management: A response to Bromiley and Rau. *Journal of Operations Management*, *41*(10), 107-109.

Kalui, F. M., & Omwansa, D. M. (2015). Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenya. *Journal of Business and Management*, *17*(4), 50-57.

Kamau, A. M., & Kalio, A. (2012). Effect of Microfinance Lending on the Financial Performance of Businesses: A Case Study of Small and Medium Enterprises in Nakuru East Sub-County, Kenya. *International Journal of Science and Research (IJSR)*.

Karimo, T., & Ogbonna, O. (2017). Financial deepening and economic growth nexus in Nigeria: Supply-leading or demand-following?. *Economies*, *5*(1), 4.

Kellermanns, F., Walter, J., Crook, T. R., Kemmerer, B., & Narayanan, V. (2016). The resource- based view in entrepreneurship: A content- analytical comparison of researchers' and entrepreneurs' views. *Journal of Small Business Management*, *54*(1), 26-48.

Kibet, K. D., Achesa, K., & Omwono, G. (2015). Effects of microfinance credit on the performance of small and medium enterprises in Uasin Gishu County, Kenya. *International Journal of Small Business and Entrepreneurship Research*, *3*(7), 57-78.

KiflieHayleeyesus, R. E. D. A. (2016). *The Impact of Microfinance Institutions on Poverty Alleviation (A Case Study in Ethiopia)* (Doctoral dissertation, Ritsumeikan Asia Pacific University).

King'ori, S., Kioko, W., & Shikumo, H. (2017). Determinants of financial performance of microfinance banks in Kenya. *Research Journal of Finance and Accounting*, *8*(16), 1-8.

Lensink, R., Mersland, R., Vu, N. T. H., & Zamore, S. (2018). Do microfinance institutions benefit from integrating financial and nonfinancial services?. *Applied Economics*, *50*(21), 2386-2401.

Lopatta, K., Tchikov, M., Jaeschke, R., & Lodhia, S. (2017). Sustainable Development and Microfinance: The Effect of Outreach and Profitability on Microfinance Institutions' Development Mission. *Sustainable Development*, *25*(5), 386-399.

Maggiori, M. (2017). Financial intermediation, international risk sharing, and reserve currencies. *American Economic Review*, *107*(10), 3038-71.

Meyer, J. (2015). Social versus financial return in microfinance. *Available at SSRN 2580343*.

Muturi, E., & Rotich, G. (2016). Effect of Credit Management Practices on Loan Performance in Deposit Taking Microfinance Banks in Kenya. *International Journal of Innovations, Business and Management (IJIBM)*, *10*(1).

Nasrin, S., Rasiah, R., Baskaran, A., & Masud, M. M. (2018). What determines the financial performance of microfinance institutions in Bangladesh? a panel data analysis. *Quality & Quantity*, *52*(3), 1409-1422.

Niaz, M., & Iqbal, M. (2019). Effect of Microfinance on Women Empowerment: A Case Study of Pakistan. *Available at SSRN 3419834*.

Obafemi, F. N., Oburota, C. S., & Amoke, C. V. (2016). Financial deepening and domestic Investment in Nigeria. *International Journal of Economics and Finance*, *8*(3), 40-54.

Okibo, B. W., & Makanga, N. (2014). Effects of micro finance institutions on poverty reduction in Kenya. *International Journal of current research and Academic Review*, *2*(2), 76-95.

Omondi, R. I. A. & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International Academic Journal of Economics and Finance*, *3*(1), 24-43

Onyango, K. A. O. (2011). *The Role of Microfinance Institutions in the Growth Of Small and Medium Enterprises (Smes). A Case of Smes in Gikomba Market Nairobi, Kenya*(Doctoral dissertation, The Management University of Africa).

Randøy, T., Strøm, R. Ø., & Mersland, R. (2015). The Impact of Entrepreneur- CEO s in Microfinance Institutions: A Global Survey. *Entrepreneurship Theory and Practice*, *39*(4), 927-953.

Seven, Ü., & Yetkiner, H. (2016). Financial intermediation and economic growth: Does income matter?. *Economic Systems*, *40*(1), 39-58.

Steiner, B., Lan, K., Unterschultz, J., & Boxall, P. (2017). Applying the resource-based view to alliance formation in specialized supply chains. *Journal of Strategy and Management*, *10*(3), 262-292.

Tchakoute-Tchuigoua, H., & Soumaré, I. (2019). The effect of loan approval decentralization on microfinance institutions' outreach and loan portfolio quality. *Journal of Business Research*, *94*, 1-17.

Thrikawala, S., Locke, S., & Reddy, K. (2017). Financial performance of microfinance institutions: does gender diversity matters?. *International Journal of Gender Studies in Developing Societies*, *2*(2), 91-110.

Tresa, J. I. (2018). *Microfinance Services and Financial Performance of Small and Medium Enterprises; Case of Kilifi Town, In Kenya* (Doctoral dissertation, Kenyatta University).

Wijesiri, M., Yaron, J., & Meoli, M. (2017). Assessing the financial and outreach efficiency of microfinance institutions: Do age and size matter?. *Journal of Multinational Financial Management*, *40*, 63-76.

APPENDICES

Appendix I: List of Microfinance Institutions in Kenya

1. Caritas Microfinance Bank Limited
2. Century Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Maisha Microfinance Bank Limited
8. Rafiki Microfinance Bank Limited
9. Remu Microfinance Bank Limited
10. SMEP Microfinance Bank Limited
11. Sumac Microfinance Bank Limited
12. U & I Microfinance Bank Limited
13. UWEZO Microfinance Bank Limited

Source; CBK (2019)

Appendix II: Questionnaire

I am Hassan Ali Idow, a student at the University of Nairobi currently undertaking a study on **EFFECT OF MICRO FINANCE SERVICES ON FINANCIAL PERFORMANCE MICRO AND SMALL ENTERPRISES IN NAIROBI, KENYA.** You are therefore requested to fill in this questionnaire with appropriate responses. Note that al information you share will only be used for academic purpose. Any information you share will treated with utmost confidence. Thank you.

SECTION A: GENERAL INFORMATION

This section seeks to collect some general on your organization. Kindly provide the responses that are applicable by (√) in the provided spaces.

1. Kindly indicate the number of years your firm has been in operation

Less 2 years	[ ]
3-5 years	[ ]
6-9 years	[ ]
More than 10 years	[ ]

2. Kindly indicate the nature of products that your firm deals in

Financial services	[ ]
Real estate services	[ ]
Insurance services	[ ]
Manufacturing	[ ]
Other…….	[ ]

3. Kindly indicate the average number of staff in your organization

Below 10 staff	[ ]
11-20 years	[ ]
21-30 staff	[ ]
Over 30 staff	[ ]

SECTION B: PRODUCTS AND SERVICES OFFERED BY MICRO FINANCE INSTITUTIONS (MFIs) AMONG MICRO SMALL ENTERPRISES IN NAIROBI, KENYA

This section seeks to collect information on the products and services your firm has enjoyed from the microfinance institutions (MFIs) to answer the first objective of the study. Kindly provide the responses that are applicable by (√) in the provided spaces.

4. Has your firm accessed loan/credit facilities from Microfinance institutions over the last five years (2015-2019).

Yes	[ ]
Know	[ ]
Don't Know	[ ]

5. If yes in question 4 above, kindly tick the average amount of credit/loan facility your firm has accessed from the microfinance institutions over the past five years (2015-2019). Use the scale below to indicate your appropriate response.

Less than 0.5 Million	[ ]
0.5-1 million	[ ]
1-5 million	[ ]
5-10 million	[ ]
More than 10 million	[ ]

6. Does your firm maintain a saving/deposit account with any Microfinance institutions in Kenya?

Yes	[ ]
Know	[ ]
Don't Know	[ ]

7. If yes in question 5 above, kindly indicate the average amount of savings/deposits that your firm has maintained with the microfinance institutions in Kenya over the past five years (2015-2019).

Less than 1 million [ ]

1-5 Million [ ]

5-10 million [ ]

10-15 million [ ]

More than 10 million [ ]

8. Has your firm sought for insurance services from the microfinance institutions over the past five years (2015-2019)?

Yes [ ]

Know [ ]

Don't Know [ ]

9. If yes in question 6 above, kindly indicate the average value of insurance risk with your institution has underwritten with the microfinance institutions in Kenya over the past five years (2015-2019).

Less than 5 million [ ]

5-10 Million [ ]

10-15 million [ ]

15-20 million [ ]

More than 20 million [ ]

SECTION C: FINANCIAL PERFORMANCE OF THE MICRO-SMALL ENTERPRISES IN NAIROBI, KENYA

10. Kindly indicate the values (in Kshs) of net income and total assets recorded by your firm over the past five years. Use the table provided below to indicate your responses.

Year	Net Income	Total Assets
2015		
2016		
2017		
2018		
2019		

END

THANK YOU FOR THE RESPONSES