

**FUNDING SOURCES ON THE PERFORMANCE OF SMALL AND
MEDIUM SIZED ENTREPRENEURIAL PROJECTS IN STAREHE
SUB-COUNTY, NAIROBI COUNTY.**

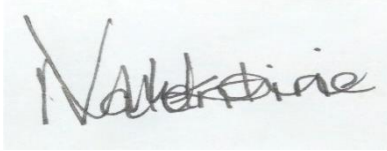
VALENTINE MUKAMI GATUNE

**A Research Project Submitted in Partial Fulfillment of the
Requirements for the Award of the Degree of Master of Arts in
Project Planning and Management of the University of Nairobi**

2022

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.



Sign:

Date...16th June, 2022.....

Valentine Mukami Gatune

Registration Number: L50/10142/2018

This research report has been submitted for defense with my approval as university supervisor.



Sign:

Date...16th June, 2022.....

Dr Petronilla Nduthu

Lecturer

Faculty of Business and Management

Department of Management Science and Project Planning

DEDICATION

I dedicate this project to my mother, Faustina Kanyua, whose encouragement and support both spiritual and financial has helped pursue and complete this course.

ACKNOWLEDGEMENT

I would like to acknowledge my supervisor Dr. Petronilla Nduthu for her guidance and mentorship in the execution of this project. She has patiently provided me with direction throughout the preparation of this proposal

I also take this opportunity to thank all the Lecturers who took me through various courses in the course of my study. These include but are not limited to Dr Anne Aseey, Prof. David Macharia, Prof. Rambo, and Dr. Mugambi, Dr. Kinyanjui.

I acknowledge the entire University of Nairobi staff including the UON Library and School of Open and Distance Learning for ensuring that there was order and efficiency during my period of study.

In conclusion I thank my Classmates and Friends for encouraging and supporting me towards attainment of this degree

TABLE OF CONTENT

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENT	iv
LIST OF TABLES	vi
LIST OF FIGURES	vii
ABBREVIATIONS AND ACRONYMS	viii
ABSTRACT	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Concept of SME Performance	2
1.1.2 Concept of Funds Sources	3
1.2 Statement of the Problem	4
1.3 Purpose of the Study	5
1.4 Objectives of the study.....	5
1.5 Research Questions	5
1.6 Research Hypothesis.....	5
1.7 Significance of the Study	6
1.8 Assumptions of the Study.....	6
1.9 Limitations	7
1.10 Delimitations	7
1.11 Definition of Significant Terms	7
1.12 Organization of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Performance of SME Projects	9
2.3 Banks and Microfinance Funding and Performance of SMEs.....	11
2.4 SACCOs on the performance of SME Projects	13
2.5 Informal Funding and Performance of SME Projects	15
2.6 Mobile Loans and Performance of SME Projects.....	17
2.7 Theoretical Framework	19
2.7.1 Pecking Order Theory	19
2.7.2 Keynesian Economic Theory	20

2.8 Conceptual Framework	21
2.9 Gaps established in the literature review	22
CHAPTER THREE: RESEARCH METHODOLOGY	30
3.1 Introduction.....	30
3.2 Research Design.....	30
3.3 Target Population	30
3.4 Sampling Size and Sampling Procedure	30
3.4.1 Sampling Procedure.....	32
3.4.2 Sampling Size.....	32
3.4.3 Research Instruments.....	32
3.5.2 Questionnaire.....	32
3.6 Piloting of Research Instrument.....	33
3.6.1 Validity of the Instruments.....	33
3.6.2 Reliability of the Instruments.....	33
3.7 Data Collection Procedure.....	34
3.8 Data Analysis Procedures.....	34
3.9 Ethical Considerations	34
4.0 Operationalization of Variables.....	35
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION.....	39
4.1 Introduction.....	39
4.2 Response Rate.....	39
4.3 Background Information.....	39
4.3.1 Gender of Respondents.....	39
4.3.2 Age of Respondents.....	40
4.3.3 Marital Status of Respondents.....	41
4.3.4 Length of Years in Operation.....	42
4.3.5 Type of Business.....	42
4.4 Influence of Banks and Microfinance Institutions	43
4.5 Influence of SACCO Loans.....	45
4.6 Influence of Mobile Loans	47
4.7 Influence of Informal Funding	49
4.8 Correlation Analysis.....	51
4.9 Regression Analysis	52

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND SUMMARY	54
5.1 Introduction	54
5.2 Summary of Findings.....	54
5.2.1 Influence of Banks and Microfinance Institutions.....	54
5.2.2 Influence of SACCO Loans	54
5.2.3 Influence of Mobile Loans	55
5.2.4 Influence of Informal Funding.....	56
5.2.5 Summary of Tests of Hypothesis and Findings	56
5.3 Conclusions	56
5.4 Recommendations.....	57
REFERENCES	59
APPENDICES	63
APPENDIX I: Introduction Letter	63
APPENDIX II:NACOSTI Permit.....	64
APPENDIX II: Consent Form	65
APPENDIX III: Questionnaire.....	66

LIST OF TABLES

Table 2.1 Summary of Knowledge Gaps 18

Table 3.1 Operationalization of Variables 25

LIST OF FIGURES

Figure 1: Conceptual Framework

LIST OF ABBREVIATION AND ACRONYMS

SACCO:	Savings and Credit Cooperative Organization
SME Project:	Small and Medium Sized Entrepreneurial Project
GDP:	Gross Domestic Product
KNBS:	Kenya National Bureau of Statistics
FAO:	Food and Agriculture Organization
TGS:	Think Global Sustainability
SIM Card:	Subscriber Identity Module Card
FMCG:	Fast Moving Consumer Good

ABSTRACT

The SME sector is a significant contributor to the Gross Domestic Product of several African economies. They constitute more than 90 percent of the businesses registered in Kenya and are responsible for 83% of the employment opportunities. Many of them are located Starehe Sub-county. However, their performance continues to be poor due to lack of funding. This is because it leads to inadequate liquidity within these projects affecting their day-to-day operations as well as lack of capital making the growth and expansion of these projects very slow. This study sought to investigate the influence of fund sources on the performance of SME Projects in Starehe Sub-county, Nairobi County Kenya. The objectives of the study were: to investigate the influence of Banks and Microfinance Institutions on the performance of SME Projects, assess the influence of SACCOs on the performance of SME Projects, Determine extent to which mobile loans influence the performance of SME projects in and examine the Influence of informal funding on the Performance of SME Projects in Starehe Sub-county. The study was grounded on the Pecking Order Theory and supported by the Keynesian Economic Theory. The study used a mixed method research design where it utilized both a correlation and descriptive survey design. The Target population was 14000 SME Project Owners in Starehe Sub-county. These are specifically those who deal in household goods. The sample size of 31 was selected through stratified sampling. Data was collected through a questionnaire that was administrated through in person interviews. The instruments' reliability was assessed through the Split Half Method and examined using the Cronbach's Alpha Method at 0.7. The collected data was analyzed through the use of descriptive statistics. These were: arithmetic mean, percentages and standard deviation. To compute the relationship between the variables the Pearson Correlation Coefficient was used at 95% confidence interval. The statistics found the following: Funding from Banks and Microfinance Institutions, SACCOs and Informal Funding had significant influence on the performance of SME Projects in Starehe Sub County, Nairobi County in Kenya. It was also found that Mobile Loans had no significant impact on the performance of SME Projects in Starehe Sub County Kenya. It is recommended that SME Project owners maintain strong relationships with their suppliers and develop a strong savings culture as these are the main sources of informal funding. It is also recommended that formal lending institutions such as Banks, Microfinance and SACCOs revise the lending terms and processes so as to make their funds more appealing and accessible to SME Project owners.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the years small and medium sized entrepreneurial projects have continued to contribute heavily to economies across the world. According to the World Bank (2019) 90% of businesses in the world are Small and Medium sized entrepreneurial projects. As unemployment continues to be a problem in most developing countries, going into business has become a viable option for many young people joining the workforce (World Bank, 2019). However, the performance for small and medium sized entrepreneurial projects has been poor.

Poor performance of small and medium sized entrepreneurial projects has been echoed by the recent World Bank Statistics which showed that SMEs contribute to 50% of the employment opportunities and 40% of the GDP. It is estimated that an estimated 600 million job opportunities will need to be created by the year 2030 so as to cater for the increasing world population and consequently growing workforce. Small and Medium sized Enterprises are crucial in the meeting of this need (World Bank, 2019). According to the Office of Advocacy of the US Small Business Administration, SMES account for two thirds of the jobs created. As of 2019 they contributed to 44% of the nation's GDP (US Small Business Administration Office of Advocacy, 2019). In Africa SMEs Contribute on average 60% of the employment opportunities. In South Africa SMES make up 91% of the businesses, 60% of the employment opportunities and contribute on average 51% of the national GDP (IFC, 2019). In Nigeria on the other hand, they make up 96% of the entrepreneurial projects and 84% of the employment opportunities (Vanguard, 2017). In Kenya SMEs account for 98% of all the registered entrepreneurial projects (Business Daily, 2020). According to a 2019 KNBS Survey they contribute 83.6% of new jobs

Based on the above statistics all SMES are a high priority sector. However, they continue to face great challenges in the area of financing. Access to credit remains the greatest hindrance to the performance and growth of SMEs Africa. There is an estimated 136 billion financing gap every year according to the IFDC (Vanguard, 2017). The challenges are fuelled by factors such lack of collateral, financial statements, experience and the networks required to access credit resources. Combined together these factors form a hurdle that SME Project owners have to overcome to get funding.

Regardless of the challenges the SME Projects are still using credit as a means to aid in the performance and expansion. They are using various credit sources such as banks and other financial institutions, mobile lending apps & personal savings. The preferred source of financing is selected based on the amount of financing needed, time it will take to access the funds, risks and costs associated with financing (OECD, 2015).

Access to financing is vital in every step of the SME Journey from the creation, performance and expansion of the business project (Vanguard, 2017). However empirical studies have not analyzed this subject conclusively. Hence it is important to delve into the concepts of funding sources and performance of Small & Medium Sized business projects

1.1.1 Performance of Small and Medium Sized Entrepreneurial Projects

SME Performance is a broad concept that entails factors such as turnover, level of output, number of branches, number of employees and customer base. Turnover refers to the amount of money a business makes in sales per period. When seeking funding from financial institutions, SME projects are usually assessed based on their turnover for a period of one year moving upwards depending on how much they want to be lent (Smith, Smith, & Bliss, 2011). This is often a challenge as they are often young and do not have bank statements running from several years. Since they operate on a small-scale basis their turnover often does not reach the threshold for accessing the size of loans that they need for significant expansion (Mutinda, 2020). The level of output often applies to business projects involved in the production of goods. These could be manufacturing, crafting or assembling. The amount of finished goods they are able to churn out is a key measure of performance for business projects (Muhika, 2019). The number of branches is also a measure of performance in SME Business Projects. This is where a business owner chooses to open additional business venue/s so as to fully utilize the capacity of the business and hence maximize profits. For a retailer/wholesaler or dealer this may be to open additional shops/outlets. For a producer this may open additional production plants or workshops (Albats, Podmentina, & Vanhaverbeke, 2021). Increase in employees is also necessary where a business is increasing its capacity. Hence the trends in the number of employees are also a significant factor in SME performance (Negash, 2021).

1.1.2 Funds Sources

With the recent recognition of the role, they play in the economy, funding of Small and Medium Sized Enterprises has been widely studied by various scholars and organizations. Studies by the various stakeholders such as OECD and the World Bank show that Small and Medium Sized Business Projects use several sources of funding including banks and other financial institutions, mobile lending apps & personal savings (OECD, 2015) (World Bank, 2019).

Business projects explore all the funding options to achieve a favorable financing mix. That is in consideration to factors such as accessibility, timeliness, risk and costs associated with each source of funds (OECD, 2015). Accessibility refers to whether the SME can get funding from the particular source that is whether they meet the standards set by the source of funding for SMEs so as to be granted funding. These qualifications/standards include number of years in business, annual turnover and presence of assets that can be used as assets. Timeliness meaning how long it will take for them to access the funding after initiating the process of seeking for funding. Risks in funding sources include the possibility of loss of assets used as collateral, possibility of increased interest rates as well as loss of reputation within the business community in case of defaulted payment. Costs with regards to funding methods refer to the processing fees & interest rates which together with the principal amount to the costs incur regularly as the debt servicing cost (Bukonya & Kinatta, 2012).

In Kenya SMEs account for all 98% of all registered entrepreneurial projects. Majority of these are fairly young and operate on a small-scale basis. Due to this they are often not able to meet the standards set by large financial institutions. These include the presence of securable assets, annual turnover and number of years in operation. They are often not able to secure funding from these organizations hence limiting their potential for growth greatly. Those that are able to access funds are often forced to pay heavy interests which increase their monthly expenses significantly and reduce their profitability. Even though there is a probable relationship between the different funding sources and the performance of SME Projects there is a lack of significant studies on the relationship between these two factors (Mutinda, 2020).

1.2 Statement of the Problem

SMEs are of great significance to the economic wellbeing of Kenya. This is because 98% of the entrepreneurial projects registered are SMEs. According to the Kenya association of manufacturers they contribute to 40% of the National GDP (KNBS, 2019). However, the performance of the sector has been poor due to inadequate access to financing. This is often because SMEs often fail to meet the standards set by major financial institutions and lenders due their scale of operations. These standards include factors such as level of annual turnover, number of years in operation and presence of securable assets. These effectively lock out a larger number of SMEs particularly those with less than two years of operation from large scale financing (Smith, 2011). Where these financial institutions choose to waive these standards SMEs often get unfavorable terms when getting funding. These include high interest rates and very short repayment periods through which SME projects end up with heavy loan servicing costs which in turn reduce the profitability of their projects. Due to this, SMEs consider several factors when choosing a financing option. These include interest rates and other costs associated with the financing methods, amortization schedules, the loan processing period and security required (Muhika, 2019,).

The correlation between access to financing and growth of organizations has been empirically illustrated in Kenya (Osoro & Muturi, 2013). This has been observed in lack of funds limiting not just the expansion but even the day-to-day operations of SME Projects. This has been observed in Starehe Sub-county where SME projects are often unable to fulfill large orders due to low liquidity levels and where financing is unavailable and the problem of low liquidity is not solved, these entrepreneurial projects often shut down. The credit terms also impact the performance of the business. SMEs accessing loans for the first time are often charged high interest rates and given short repayment periods. These often leave the projects with large monthly payments. These increase the monthly costs of the business significantly limiting profitability and growth until the SME Projects finish paying back the debt. Often the debt burden proves too heavy for the projects to bear leading to several business owners being blacklisted by the CRB as well as their assets being seized by financial institutions (Ndirangu, 2021).

Previous research shows that ready access to financing leads to increased productivity, higher returns on investment and a general increase in income (OECD, 2015). These studies are, however, inconclusive and can not be generalized to lending institutions and SMEs in Starehe Sub-county due to the small scale and informal nature of SME business projects.

Therefore, this study sought to investigate the influence of fund sources on the performance of SME Projects in Starehe Sub-county, Nairobi County.

1.3. Purpose of the Study

The study investigated the influence of funding sources on the performance of Small and Medium sized entrepreneurial projects in Starehe Sub-county, Nairobi County.

1.4 Objectives of the Study

The objective of the study were: -

- i. To establish the influence of Banks and Microfinance Institutions on the performance of SME Projects in Starehe Sub-county, Nairobi County
- ii. Assess the influence of SACCOs on the performance of SME Projects in Starehe Sub-county, Nairobi County.
- iii. Determine extent to which mobile loans influence the performance of SME projects in Starehe Sub-county, Nairobi County
- iv. Examine the Influence of Informal Funding on the Performance of SME Projects in Starehe County, Nairobi Sub-county

1.5. Research Questions

This study sought to address following questions:

- i. How do Banks and Microfinance institutions influence the performance of SME Projects in Starehe Sub-county, Nairobi County?
- ii. What is the influence of Savings and Credit Cooperative Organisations on the performance of SME Projects in Starehe Sub-county, Nairobi County?
- iii. What influence do Mobile Lending Facilities have on the Performance of SME Projects in Starehe Sub-county, Nairobi County?
- iv. How does Informal Funding influence the performance of SME Projects in Starehe Sub-county, Nairobi County?

1.6 Research Hypothesis

The study sought to test the following hypotheses:

H₀₁: There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County.

H₀₂: There is no significant relationship between Savings and Credit Cooperative Organisations and the performance of SME Projects in Starehe Sub-county, Nairobi County.

H₀₃: There is no significant relationship between Mobile Lending Facilities and the Performance of SME Projects in Starehe Sub-county, Nairobi County.

H₀₄: There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County.

1.7. Significance of the Study

All stakeholders in the SME Sector would gain value from the findings of this study. SME Projects would particularly gain from this study as they would learn how different forms of credit impact the performance of their business projects. This would help them in selecting the best sources of funding depending on their needs. Where one source is not able to cover their financing needs, they would, using the results of this study, be able to come up with a financing mix that ensures the well being and growth of their business projects. The findings of this research were insightful for lending institutions as they showed them how SME Projects, who are in this case their clients, were impacted by their credit terms and hence their views and attitudes towards their products. This helped the decision makers in these institutions know which of their products were adding value to the market and which ones need to be improved. The study also helped the County and National governments in policy formulation as it addressed key issues affecting SME Projects, a key contributor to the economy. This study also added to the body of secondary data available on the topic hence helping future researchers generate more knowledge on the area of SME Business Projects.

1.8 Assumptions of the Study

The study assumed that the means through which SME projects access funding have a major impact on their performance. It also assumed that SME Projects can get funding from

a variety of sources; this assumption presupposed that SMEs have positive credit ratings and have not been blacklisted in the Credit Reference Bureau hence are eligible for loans. The study also assumed that SME Projects have access to the technology required to access mobile loans. The study also presupposed that the respondents were members of Cooperatives societies from which they could access funding. This assumption also presupposed that SME Project owners had strong enough relationships to lend one another money and guarantee one another. The study also made the assumption that SME Projects kept proper business records and accounts and hence could monitor their performance post funding and determine whether the impact of the funding had been positive or negative

1.9. Limitations of the Study

The researcher anticipated the gathering of data would pose a challenge as the data pertains information that most SME projects owners considered private. This included data on current and past liabilities as well as the financial performance and position of the business projects. The fact that the SME Community in Starehe Sub-county were network, as well as the fact that they viewed the local authorities with suspicion would also pose a great challenge if they suspected that the researcher has been sent by the local authorities to spy on them. Potential respondents would not cooperate due to fear of getting into trouble with local authorities or being victimised and being shunned by the rest of the community if they are suspected to be giving information to local authorities. Another challenge that the researcher anticipated is that due to the informal and small-scale nature of operation in SME Projects there may be a lack of proper financial records among respondents making it difficult to track the extent the various sources of funding have impacted the performance.

1.10. Delimitations of the Study

The study was conducted in Starehe Sub-county, Nairobi County. The study population was Small and Medium Sized Entrepreneurial Project owners dealing in household goods who according to the Nairobi County Government were 14,000. These included Project Owners with various types of projects these include: FMCG Dealers, Home accessories & Fresh Produce. A mixed research design was used where a descriptive and correlational research design were used. Stratified sampling was used to collect data from the different types of projects.

1.11. Definition of Significant Terms in the Study

Fund Sources	These are avenues from which SMEs can raise money to carry out various business projects including banks, microfinance institutions, SACCOs and Personal Savings.
SME Performance	These are the indicators that show the well being and growth of a SME Project. These include: years in business in operation, assets, turnover and number of branches.
Banks	These are institutions licensed by the Central Bank of Kenya which provide depository and loan facilities to SME projects.
Microfinance Institutions	These are financial institutions that provide low-income populations such as SME projects with loan facilities
Mobile Lending Apps	These are registered lending institutions that provide their services through applications on mobile phones through which their clients can access loans
Mobile Loans	These are loans acquired through mobile lending apps
SACCOs	These are Savings and Credit Cooperatives Organisations which give their members credit based on their savings
Personal Saving	This is the amount of money a business or individual is able to put aside after deducting their expenses from their income.
Informal Funding	These are funding sources other than formal institutions. They include informal borrowing, savings and ploughed back profits.

1.12. Organisation of the Study

This study was categorised into five chapters. The first chapter included the Background of the Study, Statement of the Problem, Research Objectives and the concepts of Funding Sources and Performance of SME Projects. The second chapter reviewed the literature that was already available on the concepts discussed in chapter one as well as give the conceptual and theoretical framework of the study as well as the knowledge gap. The third chapter explained the research design, population, sampling technique, sample, data collection tools and the data analysis and presentation methods. The fourth chapter detailed

the study findings, data interpretation and discussion. The fifth chapter contained a summary of the findings, conclusions and recommendations for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter entails a systematic literature review of the independent and dependent variables. The independent variable being Funding sources which include banks and microfinance institutions, mobile loan services and personal savings. The dependent variable in this case being the performance of Small and Medium Sized Entrepreneurial Projects. The chapter also contains the conceptual and theoretical framework that will guide the study. It also contains the research gaps that were identified from the review of previous literature.

2.2 Performance of Small and Medium Sized Entrepreneurial Projects.

Number of years in operation is a key indicator of performance of Small & Medium Sized Entrepreneurial Projects. It shows the presence of sustainable business systems and processes which enable them to be going concerns (Garengo & Biazzo, 2012).

According to the U.S. Bureau of Labor Statistics two thirds of SME Projects do not make it to the 2-year mark and only 15% make it past the 10-year mark (US Small Business Administration Office of Advocacy, 2019). In South Africa 70 to 80% of Small and Medium Sized Entrepreneurial projects fail within the first 5 years this is caused mainly by financial hurdles (TGS South Africa, 2020). While they are aware of how much is needed to cover their expenses entrepreneurial project owners are often unaware of how much revenue they need to generate to remain a float. This in turn leads to low/poor pricing. Business and end up exhausting their financial resources. Business owners who are able to access financing as well financial management training are able to stay afloat. Those who do not comprise the large statistic of those that do not succeed (Investopedia, 2021).

According to a KNBS Survey 75% of small & medium sized entrepreneurial projects in Kenya close down within 3 years of inception (KNBS, 2019). The high failure rate of small projects is as a result of various factors including lack of investment, poor infrastructure,

lack of skilled labor and inadequate marketing. These factors are often the result of lack of capital. At this point in the business the entrepreneur has usually exhausted all their funds and all the money is usually tied up in the day to day running of the business. Hence a withdrawal of cash for other activities would disable the business. At this point the only option is for the project to get external funding. Hence the performance and continued existence of small and medium sized entrepreneurial projects is greatly influenced the funding source they choose and are able to access (Ngunjiri, 2018).

The number of employees in a business is a key indicator of business performance. One reason for this is that it gives insight into the average expenses the business incurs and sustains. That is through the amount of money paid in salaries. Another reason is that the number of employees hints at the level of the projects' output. In a manufacturing project the number of people working at the plant indicates the level of production and in a trade centered entrepreneurial project the number of staff indicates the number of clients the project serves and hence gives insight into the sales volumes of the business (Mahmudova & Kovács, 2018).

The Canadian Government defines Small Entrepreneurial Projects as those with between 1 to 99 paid employees and Medium sized entrepreneurial projects are those with between 100 to 499 paid employees (Government of Canada, 2020). These employees are further classified into specialised and unspecialised labour for the purposes of evaluating the state of an entrepreneurial project. A large number of specialists indicates that a business has systems and structures which in turn show sustainability and scalability of a business. It also shows that the business is able to cater to a higher labour cost as specialists demand higher pay than unskilled labour. On the other hand, a business lacking specialised professionals is often doing so due to lack of finances needed to pay this caliber of staff (Kelley et al., 2020).

The Micro & Small Sized Enterprise Authority Kenya classifies entrepreneurial projects according to the number of employees. Micro Sized projects are those with 1 to 9 employees, Small Sized are those with 10 to 49 employees and Medium sized entrepreneurial projects are those with between 50 to 99 paid staff (Micro & Small Enterprises Authority, 2012). For a lot of Small and Medium Sized Entrepreneurial Projects the amount of employees is often affected by their cash flow. Entrepreneurial projects in Kenya will often grow to the level which they are able to access funding. This growth also includes their labour force. Where they are able to fund projects leading to their growth, they are also able to scale up their labour force so as to increase their output as desired.

Business that are struggling financially typically do not expand their labour force. They struggle to maintain staff and burden the existing staff with excessive workloads. This leads to those already employed being over employed with a workload that is not commensurate with their salary while a large number of Kenyans remains unemployed. These entrepreneurial projects eventually shut down if they are not able to access favourable funding options, this is because eventually the business has to lower its output or reduce its scale of operation to match their labour force leading to eventual closure of the business (McKenzie & Puerto, 2017).

The number of branches or outlets an entrepreneurial project has is also a good indicator of its performance. The possession of more than one area of operation indicates sustained growth in the original venue of operation to the extent that it can no longer meet the current level of required output (FAO, 2005). Hence creating the need for a new location. For a manufacturer that may mean that the demand for manufactured products exceeds the capacity of the initial plant. For a seller whether retailer or consumer it indicates that the demand for products has grown in volume, cross locations or both. (Birkin et al., 2017).

In order to carry out this form of expansion large amounts of capital are often required. This often presents a challenge to business project owners. This is because they need to keep the current business activity running and hence can not draw amounts from it that would risk its productivity. Hence to grow to this next level business project owners often funding. Those that are able to get funding are able to smoothly implement this phase of growth and expand their activities leading to increased revenue and profitability. For entrepreneurial projects with no or poor access to funding this proves to be an uphill task. Often, they do not attempt to take this leap. This is because their finances are often in a shaky position as it is and such a project would negatively impact their liquidity (Gitonga et al., 2021). This is the greatest risk to a business' survival. For the more risk tolerant project owners taking this step without proper funding can prove to be extremely risky. This is because they use the funds needed to keep the current location a float. Hence crippling the original business for a period until the new location picks up and or the original business is able to generate enough profit to restore its original operating capital. However, nothing is guaranteed. There is a high possibility of both of these locations collapsing leaving then business project owner with nothing (Muhindi & Ngaba, 2018).

2.3 Bank and Microfinance Institution Lending and Performance of SME Projects

There have been several studies seeking to explain the relationship between bank and microfinance loans and the performance of small and medium sized entrepreneurial projects. Many of these studies indicate that where loans are accessible and terms are favourable, they lead to improved performance of those entrepreneurial projects that access them. Where they are in accessible or have unfavourable terms, they often lead to poor performance or even closure of SME projects (Olufemi, 2012).

A cross sectional survey carried out in Lira Municipality, Uganda by Marus , Mutesigensi & Ebong (2017) found that on average there was a positive relationship between funding from financial institutions and performance of small and medium sized entrepreneurial projects. They found that this form of credit led to an increase in capital which in turn translated to an increase in sales and profitability of the projects. They also found that variations in the form of financing also led to variations in the performance. Long term loans with favourable payment schedules led to improved performance. Short term loans on the other hand led to a high recurring debt expense which crippled the business' performance as well as led to high default rates (Matanda, 2021).

A cross sectional survey conducted by Adelekan, Eze &Majekodunmi (2017) to study the impact of bank loans on SMEs in Lagos Nigeria showed that where credit from financial institutions was accessible SME Projects they were able to achieve significant growth. Sellers were able to increase their sales and increase their outlets while manufacturers were able to expand their plants and / or increase their production. Accessibility was determined by factors such as achievable standards for receiving credit and fair interest rates. Among SMEs that were able to meet the requirements and get favourable interest rates there was a positive relationship between the receipt of credit and the growth of their entrepreneurial projects. However, a large number of Small and Medium Sized Entrepreneurial Projects were not able to meet the requirements and hence were denied funding. These entrepreneurial projects grew at a much slower rate as they relied on their own limited funds. Where interest rates were too high for projects to manage with their current and expected revenue the project owners declined to take the credit. Those that did take the loans ended up going bankrupt and their business assets being repossessed leading to the likely closure of their SME projects (Fatoko & Asah, 2011).

Auma (2017) carried a study on the effectiveness of bank credit on enhancing the performance of SME projects in Kisumu, Kenya. Her findings echoed those of Adelekan et

al (2017) and Marus et al (2017). The results of the research showed a direct positive relationship between Bank Loans and SME performance where credit terms were favourable. On the other hand, the data also established a negative relationship between the two variables where credit terms were unfavourable. The terms of credit were the biggest challenge in the adoption of bank loans. Those who took loans under unfavourable conditions experienced a decline in the overall performance of their projects. This included a decline in investment in capital assets, reduced growth in sales and business expansion i.e., introduction of new products / services and increase in outlets. The study recommended the implementation of long-term loans with favourable terms so as to increase their uptake among SME Project Owners as well as impact significant growth in the projects that use them as a form of credit.

After conducting a study in Nanyuki, Kenya Ndemi & Mungai (2018) concluded in their study that poor financial performance by Small and Medium Sized Entrepreneurial projects is due to inadequate access to favourable formal financing options. They noted that where formal finance options such as banks were accessed by these projects there was an improvement in the performance of the business. This includes the both the profitability and liquidity of the said projects.

The studies however do not give clear insights into the extent to which SME project performance is impacted by the uptake of bank and microfinance loans. That is to what extent did the projects grow or decline. There is also very little documentation of the relationship between bank loans and the performance of small and medium sized entrepreneurial projects in the Downtown Area of the Nairobi Central Business District which is a significant contributor to the county's revenue. Hence necessitating this study.

2.4 SACCOs and Performance of Small and Medium Sized Entrepreneurial Projects

Formal Funding Sources have long been established to be very difficult to access for Small and Medium Sized Entrepreneurial Projects. This is due to the requirements set by formal financing institutions. The main requirement being the presence of collateral which most Project owners do not have (Kauffman, 2005). Studies conducted in Kenya confirms this, however, SACCOs have the more favorable terms than other formal institutions. This makes them the preferred source of credit for most SME Project owners (Ndemi, 2018). This includes the fact that they do not demand for collateral but instead use the members'

participation. Another factor is that they have less bureaucracy than banks and microfinance institutions hence members are able to get funds faster helping them take advantage of opportunities available. The last and major reason why SACCOs are a preferred source of funding is the fact they generally have a much lower interest rate than other formal institutions (Sebhatu, 2012; Ndemi, 2018).

Sebhatu (2012) studied 4 SACCOs in Ethiopia's, Ofla Wereda area of Tigray Region so as to assess the Impact of SACCOs on the community. The research analyzed the impact of continued access to SACCO loans and found that the performance of Small and Medium Sized entrepreneurial projects improved. Business projects that were able to access SACCO loans were able to reduce their reliance on other loan sources with exorbitant rates. This reduced their business expenses making them more profitable. They were also able to access funding faster, this helped them quickly take advantage of opportunities as they availed themselves in the market. Members were also able to access higher loan amounts with repeated uptake of SACCO loans hence members who had taken more than two loans had significantly higher operating capital. Those who had taken more than three loans showed a significant increase in assets. This was observed more so in women were culturally considered of a lower class, growth in their entrepreneurial projects and assets contributed significantly to their empowerment.

Mukono District, Uganda was surveyed to study the effectiveness of loans and savings on business growth. The findings were a significant relationship between the success of small and medium sized entrepreneurial projects and the receipt of SACCO loans (Orinda, 2020). The study showed that the saving habits of SACCO members determined their access to loans. This referred to either the amount they could access or whether they could access any funding at all. Hence members who were able to save relatively large amounts of money regularly were more likely to access the funding to the levels that was preferable to them. Members who saved less or irregularly were not as likely to access funding. Those that did were not able to access the level of funding they wanted. It was also observed that SACCOs were more preferred by SME project owners aged 30 and above. Since the guarantors is a requirement for loans it becomes harder for project owners below 30 to access loans from them due to low membership within this age group.

In Kenya SACCOs have significantly helped in the growth of Small and Medium Sized Entrepreneurial Projects. This is particularly so the case in rural areas (Mwai, 2017). A key reason for this is that they also provide their members with training facilities. They provide

members with skills on financial management as well as how to properly grow their entrepreneurial projects. Through this, members are able to use the funds they access profitably. This is significantly lacking in other formal funding sources. The level of funding members can access is dependent on their level of savings as these serve as security for the SACCO. These loans come at interest rates that are significantly lower than those of banks and overall, the terms of the loans are much more favorable. Hence making them preferred among rural business project owners. The accessibility of loans as well as the favorable payment terms has led to the overall growth of entrepreneurial projects and wealth in rural Kenya. The presence of SACCOs has also led to an increase in a saving culture. This has led to an increase in overall amounts of funds available to SME Project owners (Morogocho, 2012) (Okatch, 2017).

The studies on the impact of SACCO lending on the performance of entrepreneurial projects have focused on rural communities. There has been little study of the relationship between urban based SACCOs and their performance of the Entrepreneurial activities of their members. There is also a lack in literature on the relationship between SME Projects and SACCOS hence there is a need for further research on this topic.

2.5 Informal Funding and Performance of SME Projects

Informal funding is a major source of funding for small entrepreneurial projects. Due to the hurdles faced when trying to access funding from Formal Financing institutions as well as unfavorable terms they still remain the preferred source of funding by project owners. During the startup phase informal funding sources such as personal saving and loans and gifts from family and friends are the main source of funding. This remains to be the case during the growth phase. This is due to the fact that most of these projects are growing slowly and have not yet achieved profitability (Amine & Staub, 2009).

A study on the factors affecting the success of small and medium sized enterprises in Indonesia. Informal funding sources were found to be the main source of capital among Small and Medium Sized entrepreneurial projects. These included personal savings and loans from friends and family. Family investments were also a major source of funding (Indarti, 2016). Entrepreneurial projects that embraced family investment enjoyed a high level of success compared to those that did not. The close-knit nature of the families led to the general mentality that the income generated from the business would serve the whole

family. Because of this family investment also came with cheap or free labor as well as general guidance and support in the management of the business. Informal funding has generally enabled entrepreneurial projects get from startup level to that of profitability (Amine & Staub, 2009).

The situation is similar in the UAE where difficulty in accessing credit from banks has led to most small entrepreneurial project owners using informal funding. This has been observed to enable the business to get on its feet and grow to profitability. It however leads to slow growth and expansion of the SMEs (Zarrouk, 2020).

In Libya a study on fund sources found that 60.5% of small and medium sized entrepreneurial projects used informal funding sources during their startup phase and 25% continued to use informal funds later on in later stages of business development. SME project owners found it hard to access formal funding (Ahmad, 2018). Many of them citing the fact that loans from banks were granted based on personal relationships with managers and not financial statements. These findings supported the Pecking Order Theory with debt being preferred after exhaustion of informal funds but equity being considered the last option. The preference for informal funding was also seen in Algeria. This was due to the high interest rates charged by financial institutions (Bouazza, 2015).

In Mauritania entrepreneurial projects that opted against formal funding sources used different techniques to raise capital. These included ploughing back profit into the business so as to enable expansion and purchase of business assets. Delaying payment to their suppliers until they were able to sell the goods and raise money. As well as giving low to zero credit to customers so as to safeguard their liquidity (Narisimhan, 2018). The same was observed in Nigeria due to the reluctance of financial institutions to lend money to SME project owners. While these techniques helped them raise funds or hold on to their current capital the progression rates of these entrepreneurial projects were very slow (Etuk, 2014)

The situation in Kenya is quite similar to those stated above. Most banks requirements include collateral and bank statements with annual turnovers reaching specific amounts. These serve as great hurdles in the SME Project owners search for funding. Interest rates and payment schedules are also often unfavorable (Etemesi, 2017). Hence informal funding is often the only option available for small business project owners. Informal funding usually involves personal savings, ploughed back profits, loans from family and friends,

purchase of goods on credit and delayed payments. Buying goods on credit and delayed payments is a key source of capital with most business owners beginning as brokers until they are able to raise capital for stock. Through this entrepreneurial project are able to be initiated even from a point of zero capital. These projects are able to get started and grow into profitability. Expansion on the other hand, often requires amounts that cannot be raised informally. So, these projects often either stagnate at this level when the owner is unable or unwilling to access formal funding (Farayibi, 2021).

The research on use of informal funding by SME Projects has focused on the startup and initial stages of entrepreneurial projects. There is need for information on whether SME owners are able to use informal funding for expansion. Hence the need for this study to determine whether SME owners were using informal sources to fund expansion and if so, what impact it had on the projects' performance.

2.6 Mobile Loans and Performance of Small and Medium Sized Entrepreneurial Projects

The uptake of mobile loans is increasing steadily across Africa. That is particularly in Western and Eastern Africa. They provide a solution to the credit problem faced by most Small and Medium Sized entrepreneurial project owners. The lack of bureaucracy as well as reduced requirements have made them a preferred option. Particularly among project owners who cannot meet the requirements set by Banks, Micro Finance Institutions and SACCOs (Orinda, 2020).

A study by Talom (2019) on the impact of mobile money on SMEs in Douala, Cameroon supported the above research. The presence of and accessibility of mobile loans by SME Project owners triggered an increase in the number of small business startup projects in the country. The quickness with which mobile loans also provided a solution to several financial hurdles encountered in the day to day running of SME projects. These include the continued liquidity of these entrepreneurial projects as they could now quickly access the cash needed for day to day running of the business. It also enabled the entrepreneurial projects to pay their creditors on time hence maintaining relationships with suppliers. Overall, the SME Projects were able to have steady working capital which is a key challenge during the startup and growth stage of a business. Hence entrepreneurial projects are able to survive up to the growth stage. However mobile lending was seen to have little impact on the expansion stage.

Research carried out on the relationship between mobile loans and performance of SMEs in Kakamega County Kenya. Mobile Lending sites to begin with encouraged a saving culture among entrepreneurs hence increasing the overall amount of Capital available to project owners. The credit terms offered by these lending sites were favorable and provided funding to SME owners quickly. This helped SME Project owners meet their financial obligations including paying their debts on time. However, the contribution of mobile loans was insignificant towards the overall performance of Entrepreneurial projects (Orinda, 2020).

Studies in Nairobi County on the other hand show a positive relationship between mobile loans and the performance of SME Projects. Studies on Nairobi CBD showed that SME project owners preferred these loans to other formal lending institutions. Banks had high loan processing fees, higher interest rates and more bureaucracy. These factors made them opt for mobile loans. The speed with which these funds were issued made them very attractive to project owners despite their interest rates (Ndirangu, 2021). Their continued access to these loans ensures the cash flow of these projects enabled them to take advantage of market opportunities quickly. Hence these Business Projects were able to experience an increase in overall performance of these SME Projects. The increased turnover of these projects offset the interest rates of these loans. This finding supported Archer (2019) statement that propensity to obtain funding impacted the performance of a business.

Amongst Small Scale business project owners Mobile Loans were able to contribute significantly to the performance of their projects. Study of Nairobi's Wakulima Market showed that mobile loans not only improved performance but also enabled the expansion of these projects. Due to the low capital requirements of the entrepreneurial projects in the market Mobile Loan amounts proved to be substantial in the face in the day-to-day expenses as well as working capital. These loans helped these projects purchase stock, increase their average stock and increase the number of casual employees needed to run the projects requirement (Ndirangu, 2021).

This level of significance in impact was across underprivileged SME Project owners. This was particularly the case in informal settlements. Mobile Loans made financing available to population segments that could not be served by formal financiers. This included populations with no securable assets, stable income and even those with no bank accounts at all. This led to the starting up of entrepreneurial projects in informal settlement areas. This accessibility to capital enabled these small entrepreneurial projects to bet of their feet and get

to profitability. As the projects grew so did the loan limits of their owners. They were able to access amounts that were able to expand their projects. In the case of these Micro business projects Mobile Loans were able to help them get to the expansion stage (Murage, 2021). The impact of Mobile Loans on the performance of SME projects is dependent on loan amounts accessible and their interest rates (Alumasa, 2021).

The studies on the relationship between Mobile Lending and performance of SME Projects has focused on relatively young projects. There is very little literature on how they impact the performance of entrepreneurial projects that have grown past their first expansion phase. Hence there is a need for the study of older entrepreneurial projects to determine the relationship between mobile loans and their performance.

2.7 Theoretical Framework

The study was based on the schools of thought of the Pecking Order Theory and the Keynesian Economic Theory. The Pecking Order Theory is based on the assumption that Personal Funding is the most preferred option of funding for entrepreneurial project owners while equity funding is least preferred. The Keynesian Economic theory on the other hand assumes that entrepreneurial projects and economies where funds are adequate and accessible in the market as this stimulates investment.

2.7.1 The Pecking Order Theory

The Pecking Order Theory also called the Pecking Order Model was developed by Stewart Meyers and Nicolas Majluf in 1984. The theory stated that the order of preference for funding options amongst entrepreneurial project owners and managers is Informal Funding, Debt Financing and Equity Financing. The last one being the least preferred. This was due to the cost associated with the methods. Informal Funding was the cheapest option and equity was the most expensive. This is due to the level of asymmetry in information associated with each of the options. That is the parties have varying levels of information. For informal funding the only party involved is the enterprises management. They have all the information that pertains the project's performance, financial position and risks involved in the activities they are currently undertaking as well as those they plan to undertake and hence the cost of this funding method is quite low. With debt financing on the other hand the lenders only have access to the information the SME project owner / manager is sharing with them. They lack knowledge on the ground information on the position of the project and hence are exposed to the risks that come with this ignorance. Due to this their funding

is given at a higher interest rate so as to cater for the risk. Hence Informal Funding becomes the most preferred option by project owners due to the low cost involved, debt financing becomes the next option equity becomes the least favorable. This theory was significant for the study as it examines how project owners perceive the impact of various funding sources on the performance of their entrepreneurial projects and how the different levels of information among parties affect the cost funding. The key assumption of the theory was asymmetry of information .That is managers knew more about the industry than their potential lenders.

2.7.2 Credit Rationing Theory

The credit rationing theory was introduced by Stiglitz and Weiss in 1981. The theory states that asymmetry of information is the main reason for credit inequalities. This is especially the case in developing countries. When financial institutions consider whether or not to give loans they consider not only the interest they stand to gain but also the risks they are exposed to when they lend out money (Armendariz, 2007). They often have information that their borrowers do not have. This is why lenders modify their interest rates to reflect new developments in the environment all while borrowers do not understand why this is happening. This is known as adverse selection.

This theory is relevant to the study as the research will study the effects of adverse selection on credit accessibility as well as how much accessed credit impacts the performance of SME Projects in Starehe Sub County. The study will tackle how adverse selection determines the popularity of credit sources as well as their usefulness.

2.8 Conceptual Framework

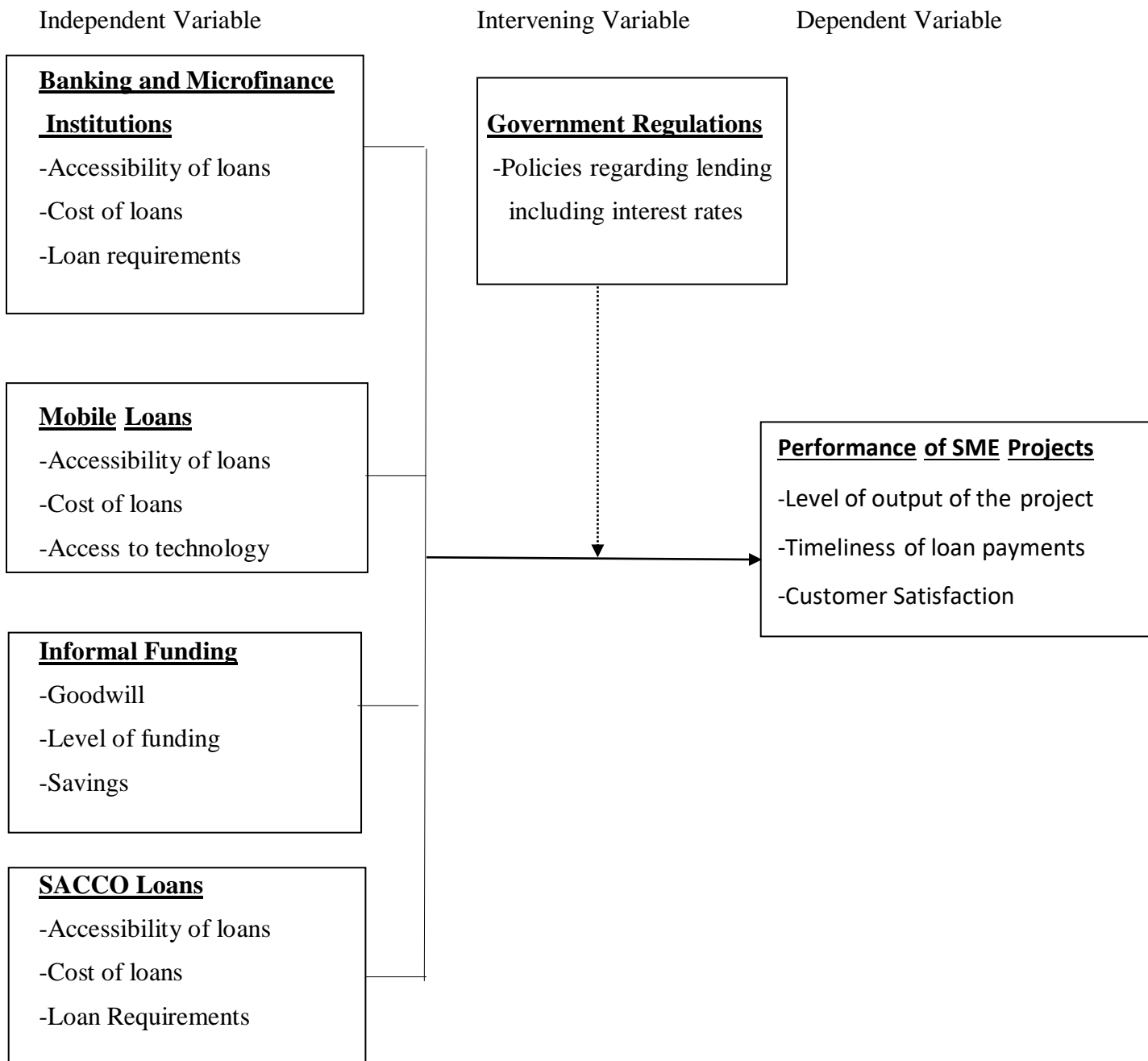


Figure 1 shows the relationship between fund sources and the performance of SME Projects in Starehe Sub-county Nairobi County

The dependent variable is the performance of SME Projects, the indicators include the number of years in operation, number of branches/ outlets, number of branches and the output level of the project. The predictor variables are Banking and Microfinance Institutions, Mobile Loans, Informal Funding and SACCOs. The indicators for Banks are Collateral, Interest rates and Credit worthiness. The indicators for mobile loans are interest rates, loan limits, credit worthiness and type of mobile phone. Informal funding was measured against income levels, revenue, profitability levels, networks, and relationships with suppliers and the nature of family relationships. SACCOs was measured using interest rates, loan amounts and availability of guarantors as indicators

2.9 Gaps Established in the Literature Review

The literature reviewed on Banks and Micro Finance Institutions, SACCOs, Mobile Loans and revealed various gaps. These gaps are presented in Table 2.1.

Table 2.1: Summary of Knowledge Gaps

Variable	Researcher	Title	Findings	Gap in Knowledge	Focus of the current study
Performance of SMEs in Starehe Sub-county , Nairobi County	TGS South Africa (2020)	Factors Affecting Success of SMEs in SA	Funding is a main factor affecting the performance	Focused on fund sources in general without detail about the accessibility of each of the sources	Focuses on the influence of funding while going into detail about the accessibility of individual sources
	KNBS (2019)	Factors affecting the success of SMEs	Found that key reasons for business failure are inadequate investment.	Only states the causes of failure, does not explain the issue of inadequate investment	Tackles the issue of inadequate investment by examining the various sources of funds and their impact on performance
	Micro & Small Enterprises Authority (2012)	Impact of funding on SME Performance. Indicators of SME Performance	Availability of funds has a positive relationship with the performance.	Covers fund sources in general does not investigate the specific funding sources.	Investigates the impact of specific fund sources on
	Birkin (2015)	Impact of Funding sources on performance of SME Projects	Found several indicators of SME Project Performance.	Focused on indicators that mostly apply to medium sized projects, failed to show indicators for small business	Performance of SME Projects Studies performance of both small and medium sized

Variable	Researcher	Title	Findings	Gap in Knowledge	Focus of the current study
To establish the influence of Banks and Microfinance Institutions on the performance of SME Projects in Starehe Sub-county, Nairobi County	Adelekan et al (2017)	Bank Funding and the performance of SMEs in Nigeria	Bank loans are very difficult to access for most SMEs but when access they are able to trigger significant growth in the SMEs	Focused on Formal SMEs in Nigeria and failed to cover informal entrepreneurial projects	Focused on both formal and informal SME Projects in Starehe Sub-county, Nairobi County.
	Gitonga (2021)	Impact of Funding of performance of entrepreneurial projects	Lack of funding a major hinderance to performance	Focused on formal funding options	Covers both formal and informal funding options influence on SME Project Performance
	Marus et al (2017)	Relationship between financial institutions and performance of SME Projects	Funding from Banks and microfinance institutions positively affects the performance of SME Projects	Only tackles funding from financial institutions and does not compare it to other fund sources	Focuses of different fund sources and how they influence performance on their own and when used as a combination
	Auma (2017)	Influence of Bank Credit on enhancing performance of SME Projects	Found a positive relationship between Bank credit and performance of SME Projects	Only tackles funding from financial institutions and does not compare it to other fund sources	Focuses of different fund sources and how they influence performance on their own and when used as a combination
	Ndemi & Mungai (2018)	Influence of Bank Credit on enhancing performance of SME Projects	Found a positive relationship between Bank credit and performance of SME Projects	Only tackles funding from financial institutions and does not compare it to other fund sources	Focuses of different fund sources and how they influence performance on their own and when used as a combination

Variable	Researcher	Title	Findings	Gap in Knowledge	Focus of the current study
To establish the influence of SACCOs on the performance of SME Projects in Starehe Sub-county, Nairobi County	Sebhatu (2012)	Impact of SACCOs on the SME Projects	SACCO Loans and performance of SME Projects in rural areas have a positive relationship.	Focused on the Relationship between SACCOs and SMEs in Rural Areas and did not cover urban areas.	Studies the relationship between SACCO loans and the performance of SME Projects in an urban area that is the CBD of Nairobi County
	Orinda (2020)	Impact of SACCOs on the SME Projects	SACCO Loans and performance of SME Projects	Did not compare SACCOs to other fund sources	The study examines other fund sources and their interaction with one another
	Ndemi & Mungai (2018)	Impact of SACCOs on the Performance of SMEs in Rural Communities in Kenya	SACCO Loans and performance of SME Projects in rural areas have a positive relationship.	Focused on the Relationship between SACCOs and SMEs in Rural Areas and did not cover urban areas. Most of the respondents were over 30yrs old	Studies the relationship between SACCO loans and the performance of SME Projects in an urban area. The respondents' age groups also vary.
	Okatch (2017)	Impact of SACCOs on the Performance of SMEs in Rural Communities in Kenya	Impact of SACCOs on the Performance of SMEs in Rural Communities in Kenya	Focused on the Relationship between SACCOs and SMEs in Rural Areas and did not cover urban areas.	Studies the relationship between SACCO loans and the performance of SME Projects in an urban area that is the CBD of Nairobi County

Variable	Researcher	Title	Findings	Gap in Knowledge	Focus of the current study
To establish the influence of Informal Funding on the performance of SME Projects in Starehe Sub county, Nairobi County	Indarti & Langenberg (2016)	Factors Affecting Business Success among SMEs: Empirical Evidences from Indonesia	Informal funding helped entrepreneurial projects grow from the start up to growth phase particularly in entrepreneurial projects that embraced family support.	Addressed the performance of SMEs in the startup and growth phase, it did not cover other phases of business growth	Focuses on the Kenyan market and the use of informal funding among SME projects at all stages of the growth cycle
	Ahmad & Atniesha (2018)	Funding sources used by SME Projects	Most SME Project owners prefer to use informal funding .	Identified the fund sources used by SMEs but did not show their impact on performance	Focuses on the impact of funding sources including informal funding .
	Narismhan (2018)	Funding sources used by SME Projects	Informal funding particularly from family had a significant positive impact on SME Project performance.	Focused on family as a source of informal funding. Failed to tackle other sources of informal funding	Focuses on several forms of informal funding and compares it to other forms of funding

Variable	Researcher	Title	Findings	Gap in Knowledge	Focus of the current study
To establish the influence of Mobile Loans on the performance of SME Projects in Starehe Sub-county, Nairobi County	Murage (2021)	Mobile Loans as Financing Options in Kenya and the Financial	A positive relationship between mobile loans and the performance of SME Projects in Low-income areas in Nairobi County	Addressed the funding challenges experienced by SME Projects low-income areas of Nairobi only	Focuses on SME Projects in Nairobi's CBD. These include projects run at small and medium scale and at different levels of growth.
	Talom (2019)	Performance of SMEs in Low Income Areas in Nairobi County	Quick accessibility of Mobile loans leads to improved SME Project Performance	Focused on Mobile loans and failed to compare it to other fund sources	Compares several fund sources including mobile loans and to see how they impact performance of SME Projects
	Ndirangu (2021)	Impact of Mobile Loans on SMEs in Starehe Sub-county	Quick accessibility of Mobile loans leads to improved SME Project Performance	Focused on Mobile loans and failed to compare it to other fund sources	Compares several fund sources including mobile loans and to see how they impact performance of SME Projects
	Murage (2021)	Impact of Mobile Loans on Performance of Poor SMEs	Accessibility of Mobile loans leads to improved Performance among underprivileged SMES	Focused on SME Projects that were underprivileged which were mostly Small Entrepreneurial Projects	Focuses on Mobile Loans and their impact on SMEs in Starehe Sub-county which comprises of Small and Medium Entrepreneurial Projects

The studies were able to establish the significance of bank and microfinancing funding on the performance of SME projects. There literature review covered studies conducted across different African countries. The findings of these studies were that overall, this form of funding lead to improved performance in SME Projects particularly in the form of growth and expansion. The studies focused on formal entrepreneurial projects and medium sized entrepreneurial projects very little attention was given to informal entrepreneurial projects and small-scale enterprises.

Studies on SACCOs were able to point to a significant positive relationship between SACCO funding and the performance of entrepreneurial projects that accessed them. The studies were conducted across several communities in Africa whose SACCOs had different demographics. However, these studies as well as most of the other studies on the topic covered SACCOs and SME Projects in rural Communities. Overall, there is very little literature on the impact of SACCO Funding on Urban and Metropolitan based entrepreneurial projects.

In the field of mobile loans studies established the importance of mobile lending. The literature showed that mobile loans contributed significantly to the growth of small-scale entrepreneurial projects across Kenya. The information revealed that upcoming small scale entrepreneurial projects were able to meet almost all their financial needs and hence grow significantly through the use of funds from mobile loans. The studies however did not address medium sized projects or those that had gone past their initial growth stage

Informal funding proved not to be adequately studied. Both at a national and international capacity. Where literature was available in focused on personal savings and family and friends as a means of funding in the startup phase. Very little study has been carried out on other forms of informal financing such as trade credit, ploughed back profits and delayed payments. Also, the studies have not focused on how informal funding affects SME Projects after the growth stage.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This study focused on the influence of fund sources on the performance of Small and medium sized entrepreneurial projects. The research methodology was developed with consideration to the research gaps noted in the literature review so as to address the variables of the study. The chapter explains the research methodology that was used for the study. This includes the research design, target population, sampling design, and data collection methods and data analysis techniques.

3.2 Research Design

This study utilized a mixed methods research design. This was so as to enable the collection of both qualitative and quantitative data (Kothari, 2004). It employed both a correlational research design and a descriptive survey design. This helped the researcher understand different contexts within the sample population. The data was collected using a questionnaire which was administered both via in person interviews.

3.3 Target Population

A target population refers to a group of people or items from which sample subjects are selected (Kothari, 2004). The subjects that form the sample usually have at least one common feature. In this case the common features were a common business and geographic environment and same size of the projects. These were SME Projects located in Starehe Sub County, Nairobi Central Ward which deal in household products that is Fast Moving Consumer Goods, Home Textiles and Accessories and Fresh Produce. The target population size was 14000 as stated by the Nairobi City Council Licensing Board (2017).

3.4 Sampling Procedure and Sample Size

This section will explain the process used to select a sample study population as well as how the number of respondents was arrived at

3.4.1 Sample Size

The total sample size was derived by use of the Fisher's Exact Test formula (Upton, 2007)

$$n = Z^2 pq/d^2$$

n=preferred sample size

Z=standard normal deviation at required confidence level 95% or 1.96 26

P= Project owners or managers, 0.14 of the population of SME projects.

Calculation => SME ' dealing in household goods $\times 100\% = \frac{14000 \times 100\%}{98600} = 18.26\%$

SME' in Starehe Sub County	98600
----------------------------	-------

q=1-p (the proportion without characteristics)

d=level of statistical significance (degree of freedom=0.05)

$$n = 1.96^2 (0.142) (0.1426) / (0.05)^2$$

n=32 respondents

3.4.2 Sampling Procedure

Stratified Proportionate Sampling was used to select respondents (Nunkoo & Teeroovengadam , 2018). These were used so as to ensure that the different types of SME Projects were well represented in the study. The Strata were selected on the basis of the nature of their operations, that is whether they are wholesalers or retailers .To ensure that the different types of SME Projects are well represented the sample population size was divided into two giving each Stratum i.e. Wholesalers and Retailers will have 16 respondents.

3.5 Research Instruments

Questionnaires were used as an instrument of data collection

3.5.1 Questionnaire

The study used a semi structured questionnaire. This was so as to collect both qualitative and quantitative data. It included questions on demographic characteristics of the respondents as well as specific questions for each variable. It was designed to measure the attitudes, opinions and understanding of the subjects. The questionnaires were administered to the owners and managers of SME Projects this was because they had in depth knowledge of the project's operations and financial decisions.

3.6 Piloting of Research Instrument

A pilot test was conducted in Starehe Sub-county, Nairobi County so as to determine the feasibility of research instruments. Questionnaires were presented to 3 SME Projects Owners that were not part of the study sample. This was based on the recommendations of Whitehead et al (2018) who recommends a minimum of 10% of the specified sample size.

3.6.1 Validity of the Instruments

According to Mugenda & Mugenda (2003) validity is the meaningfulness and the accuracy of inferences from data collected from research instruments. To achieve this the study used both construct and content validity. For construct validity the questionnaire was classified into sections that addressed the objectives and ensured that all the variables in the conceptual framework were addressed. For content validity the questionnaire was reviewed by an expert who was in this case the research supervisor. They analyzed the questionnaire's components so to determine if it could collect the desired data.

3.6.2 Reliability of the Instruments

The Split-Method was used to test reliability using the formula below

$$\alpha = \left(\frac{k}{k-1} \right) \left(1 - \frac{\sum_{i=1}^k \sigma_i}{\sigma} \right)$$

The questionnaires were numbered. Once they had been administered, they were categorized as odd and even numbered after which the Cronbach's Alpha Test was carried out on the different categories so as to test for internal consistency (Kuder et al, 1937) Here k represented the number of scale items while σ represents the variance of i.. The product i.e. α coefficient ranges from 0 to 1. If the scores of items on scale are near 0 they are independent of one another if they are closer to 1 they have a shared level of covariance

The results are shown below in Table 3.4.

Table 3.4: Reliability Test Results

Variable	Cronbach's Alpha
Banks and Microfinance Institutions	.816
SACCOs	.908
Mobile Loans	.926
Informal Funding	.854

Table 4.1 shows the reliability findings of the Cronbach test. The Cronbach alpha coefficient (α) for the study variables were as follows: Banks and Microfinance Institutions ($\alpha=$), SACCOs ($\alpha=$), Mobile Loans ($\alpha=$) and Informal Funding ($\alpha=0.854$). The reliability scores above meet the 0.7 minimum recommendation for correlation studies (Lance et al., 2006). The results showed a high level of informal consistency hence ensuring the reliability of the questionnaires.

3.7 Data Collection Procedure

The respondents were contacted beforehand and the researcher explained the purpose of the data collection and gave them the introductory letter and Research permit. The researcher then arranged with them a time that was appropriate to conduct the interview. At the agreed time the researcher allocated 30 minutes to carry out the interview with each respondent.

3.8 Data Analysis Procedures

Once all the questionnaires had been filled and collected the data was cleaned to ensure that questionnaires had been completed after which the data was coded. Both qualitative and quantitative analysis were then be applied to the data. Quantitative data was analyzed using SPSS 17.0. Descriptive statistics tools such as frequencies, arithmetic means and standard deviation were also be used. Pearson Product Movement Correlation Coefficient (r) were utilized to determine the relationship between the variables

The following correlation and regression models will guide the data analysis where:

Y – Outcome or Dependent Variable

β_0 – Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4$ – Beta Coefficients

X_1, X_2, X_3, X_4, X_5 – Predictor Variables

ε – Error Term

$$y = \beta_0 + \beta_1 (X_1) + \varepsilon:$$

Performance of projects = y (Banks and Microfinance institutions)

Banks and Microfinance institutions (X_1), Savings and Credit Cooperative Organizations (X_2), Mobile Lending Facilities (X_3) Informal Funding (X_4)

Table 3.5: Variables indicators

The table shows the variable indicators of the study

Variables		Indicators
Dependent Variable	The performance of SME Projects in Starehe Sub-county, Nairobi County. (Y)	Level of output , Timeliness of loan payments and customer satisfaction rate
Independent Variable	Funds Sources (X ₅)	Banks and Microfinance institutions (X ₁), Savings and Credit Cooperative Organizations (X ₂), Mobile Lending Facilities (X ₃) Informal Funding (X ₄)

Table 3.6 - Statistical tests of hypotheses

The table shows the summary of statistical tests of the hypotheses, research objectives, research hypotheses and type of analysis to be carried out in this study.

Objective of the research	Hypothesis (H₀)	Analysis type	Results interpretation
To establish the influence of Banks and Microfinance Institutions on the performance of SME Projects in Starehe Sub-county, Nairobi County	H ₀ : There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County.	Pearson's Correlation using linear regression	P value interpretation P < 0.05, H ₀ is rejected and H _A is not rejected. Relationships strength of r values +0.10 < r < 0.29 is a weak correlation;
Assess the influence of SACCOs on the performance of SME Projects in Starehe Sub-county, Nairobi County.	H ₀ : There is no significant relationship between Savings and Credit Cooperative Organisations and the performance of SME Projects in Starehe Sub-county, Nairobi County.		0.30 < r < 0.49 is moderate correlation; + 0.5 < r < 1 is a strong relationship. If variable under consideration does not lie within the final regression model, H ₀ was accepted and R ² values was considered for determination of the strength of the relationship.
Determine extent to which mobile loans influence the performance of SME projects in Starehe Sub-county, Nairobi County	H ₀ : There is no significant relationship between Mobile Lending Facilities and the Performance of SME Projects in Starehe Sub-county, Nairobi County.		
Examine the Influence of Informal Funding on the Performance of SME Projects in Starehe County, Nairobi Sub-county	H ₀ : There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County.		

3.9 Ethical Considerations

The study was conducted in adherence to all the ethical and legal requirements. The introductory letter as well as consent form were attached to the questionnaire which the respondents were required to sign at the beginning of the interview. The interviewer would then explain the contents and purpose of the consent form before asking the respondents to sign it. The researcher assured the respondents of confidentiality in handling the information they shared. This was included in the consent form. In this section the methodology that was used to collect and analyze the data as well as the operationalization of variables had been clearly outlined so as ensure accountability of the research process. The interviewers would schedule the interviews with the respondents beforehand. They would arrive on time for the interview and maintain a 30-minute time frame for each interview.

3.10 Operational Definition of the Variables

The table below, 3.1 illustrates study variables their indicators and research methods used to collect data

Table 3.7 Operationalization of Variables

Research Objectives	Variables	Indicators	Measure ment scales	Research Methods
The purpose of the study was to examine the Influence of Funding Sources on The Performance of Small and Medium Sized Entrepreneurial Projects in Starehe Sub-county, Nairobi County.	Dependent: Performance of SME Projects	Number Of Years in Business -Number Of Employees -Number Of Branches -Assets -Annual Turnover -Timeliness of availing funds - Output of project	Ordinal	Quantitative
1. Establish the influence of Banks and Microfinance Institutions on the performance of SME Projects in Starehe Sub-county, Nairobi County	Independent: -Accessibility of loans -Cost of Loans -Loan Requirement Dependent: -Performance of SME Projects	-Number of loans acquired -Time taken to access funds -Amounts of loans accessed -Interest rates	Ordinal	Quantitative

2. Assess the influence of SACCOs on the performance of SME Projects in Starehe Sub-county, Nairobi County.

Independent:
-Accessibility of Loans
-Cost of Loans
-Loan Requirements

Dependent:
- Performance of SME Projects

-Number of loans accessed Ordinal Quantitative
-Loan amounts accessed
-Interest rates

3. Determine extent to which mobile loans influence the performance of SME projects in Starehe Sub-county, Nairobi County

Independent:
-Accessibility of loans
-Cost of loans
-Access to technology

Dependent:
Performance of SME Projects

-Method of accessing loans Ordinal Quantitative
-Amounts accessible
-Number of loans accessed
-Ease of access

4. Examine the Influence of Informal Funding on the Performance of SME Projects in Starehe County, Nairobi Sub-county

Independent:
-Goodwill
-Level of funding
-Savings

Dependent:
Performance of SME Projects

› Propensity to save Ordinal Quantitative
› Amount of savings
› Credit from Suppliers
› Funds from friends and family

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION, INTERPRETATION AND
DISCUSSION

4.1 Introduction

This chapter comprises of data analysis, presentation and interpretations of the research findings. The data was collected using questionnaires. Descriptive statistics such as arithmetic mean, percentages and standard deviations together with correlational analysis were used in data analysis. The results are presented in tables.

4.2 Response Rate

Research questionnaires were presented to the study sample. The total number of those answered correctly and completely was divided by the total responses. 93.75 % were found to be filled correctly and completely. The same was done for those filled incorrectly or incompletely and they were found to be 6.25% of the total questionnaires. Thus the response rate was 94%. This data is shown below in Table 4.1.

Table 4.1: Response Rate

Category	Percentage (%)
Filled correctly	93.75
Filled incorrectly	6.25
Total	100

The recommended minimum response rate for analyzing survey findings is 80% (Fincham, 2008). Since the percentage of correctly filled questionnaires was 94%, the threshold to carry out analysis was met.

4.3 Background Information

The study also collected information on the various demographics of the research respondents.

4.3.1 Gender of the Respondents

For this question respondents indicated their gender. That is either male or female. The results are shown below in Table 4.2

Table. 4. 2 Gender of respondents

Gender	Percentage (%)
Male	62.5
Female	37.5
Total	100

The gender composition was 62.5% male and 37.5% female respectively. This suggests that majority of SME Project owners are male. SME Projects are perceived to be risky and requiring amounts of capital that are often not available to women. These are among the factors that discourage women from entering the field.

4. 3.2 Age of the Respondents

This section shows the ages of the respondents who were interview. Questionnaire respondents were asked to share their age under one of the following categories: 18-25, 26-32, 33-42, 43 - 52, 53 and above. The results are in Table 4.3.

Table 4.3: Age of the Respondents

Age (Years)	Percentage (%)
18-25	9.38
26-32	28.13
33-42	34.38
43-52	25
53 and above	3.13
Total	100

Table 4.3 shows that majority of those interviewed at 34% were between the age of 33-42 years. The youth comprised 37.5% while those above the age of 33 comprised 62.5% of the respondents. Those between the ages of 33 and 42 years comprised 34.3%, 43 -52 years group comprised 25% while those over 52 years comprised 3.1%. This suggests that SME Projects in Starehe Constituency are mostly owned by older individuals i.e. above the youth bracket as defined by the Kenyan government.

4.3.3 Length of Years in Operation

Years in operation was categorized into 5-10 years; 11-15 years and 16 years and above. The responses are presented in Table 4.5.

Table 4.4: Length of Business Existence

Length of Business Existence	Percentage (%)
0 -5 years	15.63
5 -10 years	50
11 to 15 years	25
16 years and 19 years	6.25
20 years and above	3.13
Total	100

From table 4.5, 15.63% of the SME Projects were between 0-5 years of existence, 50% aged between 5-10 years and 34.38% had existed for more than 10 years .The fact that 0-5 years comprised 15.63% show that few businesses in the area are able to survive the first 5 years with many of these being below 3 years of existence. Majority of businesses range between 5 to 10 years however they keep decreasing over the years of existence with only 34.38% making it past 10 years and with the numbers decreasing over the years. The over 20 year's category only has 3.13% of the sample population.

4.3.4 Type of Business

For the purpose of this study businesses were divided into 2 strata. These are Wholesalers and Retailers. The frequencies are presented in Table 4.6.

Table 4.5: Type of SME project

Type of SME Project	Percentage (%)
Retailers	50
Wholesalers	50
Total	100

From table 4.6, 50% of the respondents were in Wholesalers while 50% of the respondents were Retailers.

4.4 Influence of Bank and Microfinance

The research sought to determine the influence of Bank and Microfinance Loans on the performance of SME Projects. The respondents indicated their extent of agreement with 9 statements on the variable of Bank and Microfinance Loans. The results are in table 4.7. The categories and values attached are 1=Totally Disagree, 2= Disagree, 3=Moderately Agree, 4=Agree, And 5=Totally Agree

Table 4.6: Influence of Bank and Microfinance Loans on the performance of SME Projects

5	Statement	Composite Mean	Standard Deviation	Level of agreement
5a	A majority of projects are funded by bank loans	3.28	1.406	Neutral
5b	Bank loans are the preferred funding option	2.83	1.150	Neutral
5c	Bank loans have low interest rates	2.00	0.970	Disagree
5d	Bank loan amounts accessible by the business project can meet its needs	2.61	1.290	Neutral
5e	Bank loans are accessed regularly as per the needs of the business	2.56	1.294	Disagree
5f	Bank loans are processed quickly and funds are availed in a timely manner	3.11	1.023	Neutral
5g	The requirements for bank loans simple	2.11	1.023	Disagree
5h	Bank loans have increased the sales of the business	2.89	1.231	Neutral
5i	Bank loans have helped expand the business	2.94	1.056	Neutral
		2.99	1.1716	Neutral

Strongly Disagree (SD) $1 < SD < 1.8$; Disagree (D) $1.8 < D < 2.6$; Neutral (N) $2.6 < N < 3.4$; Agree (A) $3.4 < A < 4.2$; and Strongly Agree (SA) $4.2 < SA < 5.0$

Results in Table 4.7 on Influence of Bank and Microfinance Loans on the performance of SME Projects revealed different responses based on mean and standard deviation.

In addition, the means on the statements regarding the accessibility and favorability of bank and microfinance terms are 5c=2.00, 5d =2.61, 5e=2.56, 5f =3.11 with an average of 2.57 showing that the most of the respondents felt that these loans are not easy to access and that their terms are unfavorable. These findings agree with Fatoko & Asah(2011) who found that large

numbers of entrepreneurs found that Bank Loans were inaccessible to them due to either unfavorable terms or conditions they could not meet or both.

The statements on whether the Banks and Microfinance loans are both utilized by and contribute towards the growth of the projects that is (5a, 5b, 5g, 5h & 5i) had a mean of 2.81 showing that they disagree. The mean for the last two statements, which measure the extent to which these fund sources impact the growth of the projects, is 2.915 which suggests that the respondents feel that these fund sources do not lead to growth of SME Projects. These findings concur with Auma (2017), Adelekan (2017) and Marus (2017) who found that where bank loan terms were unfavorable they did not lead to the growth of SMEs. The study, however, disagreed with the overall conclusion reached by Auma (2017) and Adelekan (2017) that Banks and Microfinance overall had great impact on the average performance of SME Projects. It was found that most Project owners could not access funding from these institutions hence the mean of 2.99 as many SME Project owners simply could not access these loans and hence their projects were not impacted by these funding sources. Overall Item 5 on Bank and Microfinance Loans and Performance of SME Projects the mean and standard deviation were 2.99 and 1.1716 respectively.

4.6. Influence of Saving and Credit Cooperatives Loans

The study sought to establish the influence of SACCO Loans on the performance of SME Projects. The respondents indicated their extent of agreement with 9 statements on the variable of SACCO Loans. The results are in table 4.8. The categories and values attached are: Strongly Disagree (SD) $1 < SD < 1.8$; Disagree (D) $1.8 < D < 2.6$; Neutral (N) $2.6 < N < 3.4$; Agree (A) $3.4 < A < 4.2$; and Strongly Agree (SA) $4.2 < SA < 5$.

Table 4.7: Influence of SACCOs on the performance of SME Projects

6	Statement	Composite Mean	Standard Deviation	Level of Agreement
6a	The organization belongs to at least one SACCO and saves through it	3.22	1.166	Neutral
6b	SACCO loan requirements are easy to meet	3.56	1.381	Agree
6c	SACCO loans are the first option when financing needs arise	2.94	1.259	Neutral
6d	SACCO loans have low interest rates	3.67	1.283	Agree
6e	SACCO loans have been accessed regularly as per the needs of the business	3.17	0.924	Neutral
6f	SACCO loan amounts are adequate for my business needs	3.28	1.127	Neutral
6g	SACCO loans are processed quickly funds are available in a timely manner	3.50	1.339	Agree
6h	SACCO loans have helped increase the sales of the business	3.44	1.097	Agree
6i	SACCO loans have helped expand the business	3.50	1.339	Agree
		3.36	1.27	Neutral

Results in Table 4.8 on Influence of SACCO Loans on the performance of SME Projects revealed varying responses based on mean and standard deviation.

While the overall mean suggests that that respondents were neutral on the impact of SACCO loans on SME Projects' growth the individual means of the statements revealed more on the relationship between SACCOs and SME Projects.

Statements 6b, 6d and 6g on requirements, interest rates and loan processing time respectively had the highest means showing that respondents agreed that SACCO loan requirements are easy to meet, have low interest rates and are processed quickly. This agrees with Sebhatu (2012) and Ndemi (2018) who found that SACCO loan terms had more favorable terms compared to Banks.

Statements 6a, 6c, 6e on SACCO Membership, Loan Preference and Frequency of use had means of below 3.4. Showing that a lot of respondents were not members of SACCOs, and did not access them regularly. This disagreed with studies on rural SMEs including Mwai (2017) which found SACCO loans to be a frequently used and preferred Source of Funding. This can be attributed to the need for savings as well as guarantors so as to access loans which many respondents found to be a difficult condition to meet.

6h and 6i had means of above 3.4 showing that respondents agreed that SACCO loans helped grow their SME Projects by increasing their sales and helping them expand their business. This agreed with several of the studies reviewed in Chapter two including Orinda (2020), Mwai (2017) and Sebhatu (2018).

The result of this study suggest that Sacco's positively impact the performance of SME projects in urban areas as well as Starehe Sub county is located in Nairobi county and a significant portion of its businesses are located within the City's Central Business District. However, respondents still cited the loan requirements of SACCOs to be difficult and those who were not using them cited this as a reason.

It is also notable that most of those who said they were members of SACCOs and accessed loans from them were aged over 33 years showing that the youth below 33 were not yet well served by SACCOs.

Overall the Mean and Standard Deviations for SACCO Loans and Performance of SME Projects were 3.36 and 1.27 respectively.

4.7 Influence of Mobile Loans

The study sought to examine the impact of mobile Loans on the performance of SME Projects. The respondents indicated their extent of agreement with 9 statements on the variable of Mobile Loans. The results are in table 4.9. The categories and values attached are: Strongly Disagree (SD) $1 < SD < 1.8$; Disagree (D) $1.8 < D < 2.6$; Neutral (N) $2.6 < N < 3.4$; Agree (A) $3.4 < A < 4.2$; and Strongly Agree (SA) $4.2 < SA < 5.0$

Table 4.8: Influence of Mobile Loans on Performance of SME Projects

7	Statement	Composite Mean	Standard Deviation	Level of Agreement
7a	The SME owner is registered on at least one mobile lending platform	3.22	1.517	Neutral
7b	Mobile loans are the first option when funding is needed	2.67	1.372	Neutral
7c	Mobile loans have low interest rates	2.72	1.127	Neutral
7d	Mobile loan requirements are easy to meet	3.67	1.085	Agree
7e	Mobile loan amounts are adequate for the business project's funding needs	2.06	0.938	Disagree
7f	I have accessed mobile loans regularly as per their needs	2.72	1.487	Neutral
7g	I access mobile loan services using an online app	2.56	1.423	Disagree
7h	I access mobile loan services using my SIM Card	2.44	1.381	Disagree
7i	Mobile loans have helped increase the sales of the business	2.39	1.195	Disagree
7j	Mobile Loans have helped expand the business	2.28	1.227	Disagree
		2.97	1.42	Neutral

Results in Table 4.9 on Influence of Mobile Loans on the performance of SME Projects revealed varying responses based on mean and standard deviation.

Majority of SME Project owners were registered in at least one mobile lending platform according to statement 7a. Most of them were users of SIM Card loans with a mean of 3.22. The respondents also agreed to the statement that mobile loan requirements were easy to meet, 7d, with a mean of 3.67.

However the all the other statements had a mean of 3. Statement 7b on whether mobile loans were the preferred lending option had a mean of 2.67 showing that this was not the preferred credit source among SME Project owners in Starehe Constituency. This finding disagrees with Ndirangu (2021) who found that mobile loans were the preferred credit option.

Statement 7e had the lowest mean. This statement was on whether mobile loan amounts were adequate for their funding needs. Respondents felt that loan amounts were too low to trigger growth of their businesses. This response was similar across the different SME Categories as well as the varying sizes of the projects. They felt that these loans helped maintain the liquidity of their projects and settle small debts to creditors. This agreed with the findings of Talom (2019) and Orinda (2020) reviewed in the literature review.

Statements 7i and 7j were on whether Mobile loans increased their sales and expanded their projects respectively. Both of these statements had means of below 2.5 hence indicating that the respondents disagreed with the statements and felt that mobile loan did not aid in the growth of their projects. This finding agreed with that of Orinda (2020) that despite the frequency of their usage, mobile loans were insignificant towards the performance and growth of SME Projects

It is notable that previous studies referred to above focused on Small SME Projects while this study analyzed Small and Medium sized Projects in metropolitan area.

The Mean and Standard Deviations Mobile Loans and Performance of SME Projects were 2.97 and 1.42 respectively.

4.7 Influence of Informal Funding Sources on Performance

The study sought to examine the impact of Informal Funding on the performance of SME Projects. The respondents indicated their extent of agreement with 8 statements on the variable of Informal Funding.

The results are in table 4.10. The categories and values attached are: Strongly Disagree (SD) $1 < SD < 1.8$; Disagree (D) $1.8 < D < 2.6$; Neutral (N) $2.6 < N < 3.4$; Agree (A) $3.4 < A < 4.2$; and Strongly Agree (SA) $4.2 < SA < 5.0$

Table 4.9: Influence of Informal Funding of Performance of SME Projects

8	Statement	Composite Mean	Standard Deviation	Level of Agreement
8a	The business is able to regularly save money after meeting its expenses	3.22	1.060	Neutral
8b	Business savings are an important source of funding for business projects	3.61	0.850	Agree
8c	I am able to raise adequate amounts for funds from friends and family	2.33	1.237	Disagree
8d	My suppliers allow me to take stock on credit	3.33	1.085	Neutral
8e	My fellow business project owners lend me money from time to time	2.44	1.247	Disagree
8f	I have a reliable pool of savings from which I can finance my activities	2.61	1.335	Neutral
8g	Informal funding has helped the project increase its sales and revenue	3.94	0.802	Agree
8h	Informal funding has helped the SME carry out expansion projects	3.33	1.085	Neutral
		3.1012	1.0876	Neutral

Results in Table 4.9 on Influence of Informal Funding on the performance of SME Projects revealed varying responses based on mean and standard deviation.

The statements 8a and 8b were on whether the SME Projects were saving regularly and had a reliable pool of savings respectively. These had a mean of 3.22 and 2.62 showing that respondents were neutral on these statements. Most respondents cited the current economic

recession as the reason why they were not able to save regularly and no longer had a reliable pool of savings.

Statements on loans from family, friends and fellow SME owners all had means of below 2.5 showing that respondents did not feel that they could raise funding from these sources. This findings disagree with those of Narisimhan (2018) and Indarti (2016) who in their studies found loans from family to be a common and reliable source of funding.

Savings and Credit from Suppliers were the main sources of informal funding amongst our SME Project owners. This is according to statements 8b and 8d which had means of 3.61 and 3.33 respectively. This findings agreed with Etemesi (2019). Respondents also preferred personal savings as a funding source .This conformed to the Pecking Order theory on which the study was grounded.

Statement 8g on whether informal funding helped the projects increase their sales and revenue had the highest mean at 3.94. Showing that SME Project Owners agreed that informal funding helped to increase sales. However they were neutral on statement 8h that stated that informal funding helped them expand their SME Projects. They respondents felt that the amounts they were able to raise through informal funding were not large enough to carry out expansion activities. This finding agreed with Farayibi (2021) who found that those who relied on informal funding experienced slow growth as the amounts they raised were not big enough for expansion projects.

The Mean and Standard Deviations Mobile Loans and Performance of SME Projects were 3.1012 and 1.09 respectively.

4.8 Correlation Analysis

To study the relationship between the variables the Pearson Correlation Coefficient was used. A pair of variables was considered to be related if the coefficient of the correlations (r) was greater than 0.5 at a 95% confidence interval. Table 4.11 shows the findings of the correlation analysis

Table 4.10: Correlation Matrix

		SME Performance	Banks Loans	SACCO Loans	Mobile Loans	Informal Funding	Relationship Strength
SME Performance	Pearson Correlation(r) Sig. (2-tailed)	1 0.000					Strong Correlation
Banks & Microfinance institutions	Pearson Correlation(r) Sig. (2-tailed)	0.530 0.031	1				Strong Correlation
SACCO Loans	Pearson Correlation(r) Sig. (2-tailed)	0.671 0.016	0.220 0.195	1			Strong Correlation
Mobile Loans	Pearson Correlation(r) Sig. (2-tailed)	0.270 0.107	0.169 0.254	0.010 0.974	1		Weak Correlation
Informal Funding Sources	Pearson Correlation(r) Sig. (2-tailed)	0.732 0.008	0.215 0.167	0.163 0.292	0.132 0.652	1	Strong Correlation

Table 4.11 indicates how significant the correlation between Performance of SME projects and the various sources of funding is. The relationship strengths were defined with regards to their r values. They were grouped into the following categories: $+0.10 < r < 0.29$ is a weak correlation; $0.30 < r < 0.49$ is moderate correlation; $+0.5 < r < 1$ is a strong relationship

There is a strong correlation between SME Project Performance and Bank Loans ($r=0.530$, $p=0.031$), SME Project Performance and SACCO Loans ($r=0.675$, $p=0.016$) and SME Project Performance and Informal Funding Sources ($r=0.732$, $p=0.008$). The relationship between SME Project Performance and Mobile Loans was ($r=0.270$, $p=0.107$) which was below 0.3 and hence was a weak correlation and not statistically significant. This implies mobile loans had the least influence on the performance of SME Projects. SME Project performance and Informal funding had the highest correlation indicating that informal funding sources had the greatest impact on the performance of SME Projects.

4.9 Regression analysis

The study the impact of predictor variables on the dependent variable regression analysis was carried out. The results are in table 4.12 below and the variables were classified according to the p value. $P < 0.05$ significant relationship, $p > 0.05$ insignificant relationship

Table 4.11: Summary of regression analysis

Variable	Mean	SE	t	df	p
Bank Loans	2.99	0.118096	0.52067	35.3	0.031
SACCO Loans	3.36	0.150267	1.159056	32.7	0.016
Mobile Loans	2.97	0.12492	-1.81338	33.5	0.107
Informal Funding	3.10	0.244927	1.070266	35.2	0.008

For hypothesis one on “There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County” the result showed that a level of significance of p-value of 0.038 was realized where the relationship was significant at $p < 0.05$. There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County”, would be rejected or not rejected. A p-value of $0.031 < 0.05$ revealed that the hypothesis stated “There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County” was rejected. There is a significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County.

For hypothesis 2 on “There is no significant relationship between SACCOs and the performance of SME Projects in Starehe Sub-county, Nairobi County” the results showed that a level of significance of p-value of 0.016 was realized where the relationship was significant at $p < 0.05$. There is no significant relationship between SACCOs and the performance of SME Projects in Starehe Sub-County, Nairobi County”, would be rejected or not rejected. A p-value of $0.016 < 0.05$ revealed that the hypothesis stated “There is no significant relationship between SACCOs and the performance of SME Projects in Starehe Sub-county, Nairobi County” was rejected. There is a relationship between SACCOs and the performance of SME Projects in Starehe Sub-county, Nairobi County.

For hypothesis 3 on “There is no significant relationship between Mobile Lending Facilities and the Performance of SME Projects in Starehe Sub-county, Nairobi County” the results showed that a level of significance of p-value of 0.107 was realised where the relationship was significant at $p < 0.05$. There is no significant relationship between mobile loans and the performance of SME Projects in Starehe Sub County, Nairobi County would be rejected or not rejected. A p-value of $0.107 < 0.05$ revealed that the hypothesis stated, “There is no significant relationship between Mobile Lending Facilities and the Performance of SME Projects in Starehe Sub-county, Nairobi County” was not rejected. There is no significant relationship between Mobile Loans and the performance of SME Projects in Starehe Sub-county, Nairobi County

For hypothesis 4 on There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County the results showed a level of significance of p- value of 0.008. There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County would be rejected or not rejected. A p-value of $0.008 < 0.05$ revealed that the hypothesis stated , ‘There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County’ was rejected. There is a significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter summarized the study's findings, conclusions and recommendations with regards to each research objective. The purpose of the study was to examine the impact of funding sources on the performance of small and medium sized entrepreneurial projects in Starehe Sub-County, Nairobi County.

5.2 Summary of Findings

This section highlight the findings on each research objective.

5.2.1 Influence of Banks and Microfinance institutions on performance of SME Projects

As per the descriptive statistics the composite mean was 2.99 for statements about the influence of banks and micro finance institutions on the performance of SME Projects. This implies that most of the respondents did not believe that funding from banks and microfinance institutions influenced the performance of SME Projects. Correlation Analysis showed that loans from these institutions had a moderately high impact on the performance of SME Project in Starehe Sub-county($r = 0.530$). Null hypothesis was rejected at 95% confidence interval as the evidence proved a significant relationship between funding from Bank and Microfinance institutions and performance of SME Projects in the Sub-County

5.2.2 Influence of SACCO Loans on Performance of SME Projects

Based on the descriptive statistics the composite mean for statements about the influence of SACCO loans on SME Projects was 3.36. This suggests that majority of the respondents believed that funding from SACCOs impacted the Performance of SMEs. The correlation analysis had a factor of r as 0.671 showing that these loans had a high impact on the performance of SME Projects .At 95% confidence interval the Null hypothesis that there is no significant relationship between SACCOs and the performance of SME Projects in Starehe Sub-county, Nairobi County was rejected. It was proven that that there is indeed a significant relationship between the two variables.

5.2.3 Influence of Mobile Loans on the Performance of SME Projects

After conducting descriptive statistics on the statements on the influence of mobile loans on SME Projects the composite mean was found to be 0.270. This suggests that majority of the Project Owners did not believe that mobile loans impacted the performance of their Projects. The correlation analysis showed that there was no significant relationship between Mobile Loans and performance of SME Projects in the area ($r = 0.270$). At a 95% confidence interval the Null hypothesis was accepted as the study revealed that there was no significant relationship between mobile loans and performance of SME Projects in the area.

5.2.4 Influence of Informal Funding on the Performance of SME Projects

As per the descriptive statistics the composite mean for statements on impact of informal funding on the performance of SME Projects was 3.102. This shows that most of the respondents felt that Informal Funding affected the performance of their SME Projects. The correlational analysis showed that informal funding had a significant impact on the performance of SME projects in Starehe Sub County. ($r=0.732$). The null hypothesis at 95% confidence interval was that there was no significant relationship between informal funding and the performance of SME Projects. This was rejected as there was a significant relationship between the two variables.

5.2.5 Summary of Tests of Hypotheses and Results

This study sought to test the null hypotheses. The test results are presented in Table 5.1.

Table 5.1: Summary of Tests of Hypotheses and Results

The table below shows the summary of tests of hypothesis and results

Research Objective	Hypothesis	Results	Table	Remarks
To establish the influence of Banks and Microfinance Institutions on the performance of SME Projects in Starehe Sub-county, Nairobi County	H ₀ : There is no significant relationship between Banks and Microfinance institutions and the performance of SME Projects in Starehe Sub-county, Nairobi County.	r= 0.530 p:0.031< 0.05	4.11	H ₀ rejected
Assess the influence of SACCOs on the performance of SME Projects in Starehe Sub-county, Nairobi County.	H ₀₂ : There is no significant relationship between SACCOs and the performance of SME Projects in Starehe Sub-county, Nairobi County.	r= 0.675 p:0.016< 0.05	4.11	H ₀ rejected
Determine extent to which mobile loans influence the performance of SME projects in Starehe Sub-county, Nairobi County	H ₀₃ : There is no significant relationship between Mobile Lending Facilities and the Performance of SME Projects in Starehe Sub-county, Nairobi County.	r= 0.270 p:0.107< 0.05	4.11	H ₀ not rejected
Examine the Influence of Informal Funding on the Performance of SME Projects in Starehe County, Nairobi Sub-county	There is no significant relationship between Informal Funding and performance of SME Projects in Starehe Sub-county, Nairobi County.	r= 0.732 p:0.008< 0.05	4.11	H ₀ rejected

5.26 Conclusions

The first research objective examined the extent to which Bank and Microfinance Institutions influences the performance of SME Projects in Starehe Sub County. It was drawn from descriptive and correlational statistics that funding from Banks and Microfinance Institutions significantly influenced the performance of SME Projects in Starehe Sub County, Nairobi County.

The second research objective studied the impact of SACCOs on the Performance of SME Projects in Starehe Sub County. The results of descriptive statistics and correlational analysis led to the conclusion that funds from SACCOs highly impacted the performance of SME

Projects in Starehe Sub County, Nairobi County.

The third objective analyzed the impact of mobile loans on the performance of SME Projects in Starehe Sub County. After descriptive statistics and correlational analysis was carried out it was concluded based on the findings that Mobile Loans did not influence the performance of SME Projects in Starehe Sub-County, Nairobi County.

The fourth research objective sought to assess the degree to which Informal funding influenced the performance of SME Projects in Starehe Sub County. Derived from the descriptive statistics and correlation analysis the conclusion was that informal funding was a critical influencer in the performance of SME Projects in Starehe Sub County, Nairobi County.

5.2.7 Recommendations

1. While most SME Project owners agreed that Bank Microfinance Institutions agreed that bank and microfinance loans could have a significant impact on their projects. However, most of the respondent stated that they could not access these services due to the requirements and the threshold set by the institutions. The high standards set by the Banks and microfinance institutions concurrently lock out most SME Projects and greatly limit the growth of their customer base among SME Project. Banks and Microfinance Institutions should revise the standards they use to assess SME Projects for loan eligibility so as to increase their reach in the SME sector. The government should also consider subsidizing Bank Loans and Microfinance Institutions for SME Projects so as to enable growth in the SME Sector.
2. Despite SACCOs being favored as a source of funding by most respondents they also felt that the process of getting funds that is the application and approval process was complicated. SACCOs should consider making the loan application process easier for their members.
3. It was also noted that majority of those who were members of a SACCO were above the age of 42 showing that they are currently not well served by SACCOs. SACCOs should modify their products to meet the needs of the youth. They should also increase their marketing effort towards the youth.
4. Informal Funding was considered the most influential in impacting the performance of SME

Projects. The two main sources being personal savings and credit from suppliers. It is important that SME Project owners develop a strong saving culture. It is also important that they develop and maintain good relationships with their suppliers.

5.25 Suggestions for Further Study

The researcher identified the following areas for further study:

1. The study found that Bank/Microfinance and SACCO loans positively influenced the performance of SME Projects. Mobile Loans were found not to have an impact on the performance of the projects in Starehe Sub County. These findings can be tested in a wider population of SME Projects to boost the generalization across larger population settings.
2. The study focused on how different funding sources affected SME Performance, the study revealed various challenges experienced by Project owners when trying to access different forms of funding. There is very little information on the challenges faced by SME Projects in accessing funding in Kenya hence it there is need to study the challenges hindering SMEs from accessing funding.
3. The study was carried out using a cross sectional design hence the findings referred to that particular time which is the year 2022 .The SME Projects were still trying to cope with the effects of COVID 19 on the economy which according to the respondents has negatively impacted their performance. A longitudinal study of the SME Projects in Starehe Sub County can be carried out to study how the relationship between the variables will change over the coming period of time as SME Projects regain stability.

References

- Adelekan, S. A., Eze, B. U., & Majekodunmi, S. A. (2017). *Bank Loans and Small Medium Enterprises' (Smes) Performance in Lagos, Nigeria*. Researchgate.Net. https://www.researchgate.net/profile/Benneth-Eze/publication/334050044_Bank_Loans_And_Small_Medium_Enterprises'_Smes_Performance_In_Lagos_Nigeria_52_Bank_Loans_And_Small_Medium_Enterprises'_Smes_Performance_In_Lagos_Nigeria/links/5d145ffca6fdcc2462a922f7/B
- Ahmad, N., & Atniesha, R. (2018). The Pecking Order Theory and Start-Up Financing of Small and Medium Enterprises: Insight Into Available Literature In The Libyan Context. *Financial Markets, Institutions And Risks*, 2(4)
- Albats, E., Podmentina, D., & Vanhaverbeke, W. (2021). Open Innovation In Smes: A Process View Towards Business Model Innovation. *Journal of Small Business Management*.
- Alumasa, S., & Muathe, S. (2021). Mobile Credit and Performance: Experience and Lessons from Micro and Small Enterprises in Kenya. *Journal of Applied Finance & Banking*, 11(4), 135-161.
- Amondi, R., & 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.
- Auma, L. A. (2017). Factors Affecting The Effectiveness Of Bank Credit In Enhancing The Performance Of Small And Medium Enterprises In Kenya: A Case Of Kisumu City. <http://ir.jkuat.ac.ke/>. <http://ir.jkuat.ac.ke/handle/123456789/4461>
- Birkin, M., Clarke, G., & Clarke, M. (2017). *Retail Location Planning In An Era Of Multi-Channel Growth*. Routledge. https://www.taylorfrancis.com/login?current_url=https%3A%2F%2Fwww.taylorfrancis.com%2Fbooks%2Fmono%2F10.4324%2F9781315605937%2Fretail-location-planning-era-multi-channel-growth-mark-birkin-graham-clarke-martin-clarke

- Bonsu, H. (2016). The Effect Of Savings And Loans Companies On The Operations Of Small And Medium Enterprises (Smes) In Kumasi Metropolis. Kwame Nkrumah University Of Science And Technology.
- Bosire, J., & Ntale, J. (2018). Effect Of Mobile Money Transfer Services On The Growth Of Small And Medium Enterprises In Informal Sector Of Nairobi County, Kenya. *International Journal Of Information Research And Review*, 5(3), 5326 - 5333.
- Bukenya, M., & Kinatta, M. (2012, June 27). Informal Controls And Access To Commercial Loan Financing For Small Scale Enterprises In Uganda. *African Journal Of Business Management*, 6(25), 7446-7558. <https://Academicjournals.Org/Journal/Ajbm/Article-Abstract/294057938588>
- Business Daily. (2020, June 14/06/2020). What's In 2020 Budget To Spur Smes Growth And Innovation? [Businessdailyafrica.Com](https://www.businessdailyafrica.com). <https://www.businessdailyafrica.com/Bd/Opinion-Analysis/Ideas-Debate/What-S-In-2020-Budget-To-Spur-Smes-Growth-And-Innovation--2292698>
- Eton, M., Mwosi, F., Mutesigensi, D., & Ebong, C. (2017). Credit Financing And Performance Of Smes In Lira Municipality, Uganda. *Research Journal Of Finance And Accounting*, 8(8).
- Food And Agriculture Organization Of The United Nations. (2005). Contract Farming: Partnerships For Growth. Fao. https://books.google.co.ke/books?hl=en&lr=&id=K7qm_I8yj1sc&oi=fnd&pg=pr3&dq=The+Number+Of+Branches+Or+Outlets+An+Entrepreneurial+Project+Has+Is+Also+A+Good+Indicator+Of++Its++Performance+.+The+Possession+Of+More+Than+One+Area+Of+Operation+Indicates+Sustain
- Garengo, P., & Biazzo, S. (2012). From Iso Quality Standards To An Integrated Management System: An Implementation Process In Sme. *Total Quality Management & Business Excellence*, 24,2013(3-4), 310 - 335. <https://www.tandfonline.com/doi/abs/10.1080/14783363.2012.704282>
- Gitonga, J., Benedict, A., & Agyeman, A. (2021). Financial Determinants Of Smes Performance. Evidence From Kenya Leather Industry. *SMALL BUSINESS International Review*, 5(2), 389. <https://sbir.upct.es/10.26784/Sbir.V5i2.389>

- Government Of Canada. (2020). Key Small Business Statistics - 2020. Government Of Canada. Retrieved 8 10, 2021, From https://www.ic.gc.ca/eic/site/061.nsf/eng/H_03126.html
- Ifc. (2019). The Unseen Sector A Report On The Msme Opportunity In South Africa. Ifc.Org. Retrieved July 20/07/2021, 2021, From https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/msme-opportunity-south-africa
- Indarti, N., & Langenberg, M. (2016). Factors Affecting Business Success Among Smes: Empirical Evidences From Indonesia.
- Investopedia. (2021, 03 31). The 4 Most Common Reasons A Small Business Fails. Investopedia.Com. <https://www.investopedia.com/articles/personal-finance/120815/4-most-common-reasons-small-business-fails.asp>
- Kelley, L., Fujioka, J., Liang, K., Cooper, M., Jamieson, T., & Desveaux, L. (2020). Barriers To Creating Scalable Business Models For Digital Health Innovation In Public Systems: Qualitative Case Study. *Jmir Public Health Surveill*, 6(4). <https://publichealth.jmir.org/2020/4/e20579/authors>
- Knbs. (2019). Knbs.Or.Ke. <https://www.knbs.or.ke/>
- Kothari, C. R. (2004). *Research Methodology: Methods And Techniques*. New Age International.
- Kuder, G. F., & Richardson, M. W. (1937). The Theory Of The Estimation Of Test Reliability. *Psychometrika*. doi.org/10.1007/Bf02288391
- Lore, M. O. (2019). Factors Affecting The Growth Of Mobile Phone Loan Uptake Among Small And Medium Traders In Nairobi Central Business District. United States International University - Africa.
- Mahmudova, L., & Kovács, J. (2018). Defining The Performance Of Small And Medium Enterprises. *Fundatia Română Pentru Inteligența Afacerii*, 12(6/2018), 111-120. <https://www.ceeol.com/search/article-detail?id=743464>
- Marogocho, D. (2012). Impact Of Savings And Credit Cooperatives On Teachers Welfare. A Study Of Meru Mwalimu Sacco Members, Kenya.

- Marus, E., Mwosi, F., Mutesigensi, D., & Ebong, C. (2017). Credit Financing And Performance Of Smes In Lira Municipality, Uganda. *Research Journal Of Finance And Accounting*, 8(8), 121-127. [Www.iiste.org/Journals](http://www.iiste.org/Journals). [Doi.Org/10.5897/Ajbm2020.8985](https://doi.org/10.5897/Ajbm2020.8985)
- Mckenzie, D. J., & Puerto, S. (2017). Growing Markets Through Business Training For Female Entrepreneurs: A Market-Level Randomized Experiment In Kenya. *World Bank Policy Research Working Paper*, 7993(7993), 55. [Https://Papers.Ssrn.Com/Sol3/Papers.Cfm?Abstract_Id=3169614](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3169614)
- Micro & Small Enterprises Authority. (2012). *Micro & Small Enterprises Act 2012*. Micro & Small Enterprises Authority Kenya. [Https://Msea.Go.Ke/Downloads/](https://msea.go.ke/downloads/)
- Morris, M. H. (1998). *Entrepreneurial Intensity: Sustainable Advantages For Individuals, Organizations, And Societies*. Greenwood Publishing Group.
- Muchiri, J. O. (2018). Effect Of Mobile Banking Adoption On The Performance Of Small And Medium Enterprises In Nairobi County. *International Journal Of Economics, Business And Management Research*, 2(04).
- Muhika, D. W. (2019). Influence Of Credit Access Requirements On Formalization Decision Of Small And Medium Enterprises In Nairobi. [Http://Ir.Jkuat.Ac.Ke/Handle/123456789/5014](http://ir.jkuat.ac.ke/handle/123456789/5014)
- Muhindi, A., & Ngaba, D. (2018). Effect Of Firm Size On Financial Performance On Banks: Case Of Commercial Banks In Kenya. *International Academic Journal Of Economics And Finance*, 3(1), 175-190. [Ir-Library.Ku.Ac.Ke](http://ir-library.ku.ac.ke). Issn 2518-2366
- Murage, M. (2021). Mobile Loans As Financing Options In Kenya And The Financial Performance Of Smes In Low Income Areas In Nairobi County. *African Journal Of Empirical Research*, 2(2), 114 - 122.
- Mutinda, A. K. (2020, December 08). *Financial Factors Affecting Access To Credit Among Small And Medium Enterprises In Machakos Town Sub-County, Kenya*. South Eastern Kenya University. [Http://41.89.55.71:8080/Handle/123456789/6157](http://41.89.55.71:8080/handle/123456789/6157)
- Mwai, J. (2016). *Role Of Saccos In The Eradication Of Poverty Among Farmers In Muranga County A Case Of Selected Sacco's In Muranga Town*.

- Mwangi, N., Shisia, A., Mwai, L., & Okibo, W. (N.D.). Assessment Of Micro Financial Institution Funding On The Performance Of Small And Medium Enterprises In Murang'a County-Kenya. *European Journal Of Business And Management*
- Ndemi, E., & Mungai, J. (2018). Formal Credit Financing And Financial Performance Of Small And Medium Enterprises In Nanyuki Town, Kenya. *International Academic Journal Of Economics And Finance*, 3(2), 179-196.
- Ndemi, E. G., & Mungai, J. (2018). Formal Credit Financing And Financial Performance Of Small And Medium Enterprises In Nanyuki Town, Kenya. *International Academic Journal Of Economics And Finance*, 3(2), 179-196.
- Ndirangu, N. (2021). Mobile Loan Interest Rates And Wakulima Market, Growth Performance In Nairobi County. *Research Gate*. https://www.researchgate.net/publication/349679018_Mobile_Loan_Lenders_Interest_Rates_And_Wakulima_Market_Growth_Performance_In_Nairobi_County_2
- Negash, F. (2021). The Relationship Between Saving And Micro Credit Program And Small Businesses In Eritrea : Evidence From Central Zone. <https://eprints.lib.hokudai.ac.jp/dspace/handle/2115/81756>
- Ngunjiri, N. (2018, 03 19). Why Many Small Businesses Fail To Grow After Launch. *Business Daily Africa*.
- Njagi, I., Maina, K., & Kariuki, S. (N.D.). Equity Financing And Financial Performance Of Small And Medium Enterprises In Embu Town, Kenya. *International Academic Journal Of Economics And Finance* |, 2(3), 74-91.
- Oecd. (2015, Feb 9). New Approaches To Sme And Entrepreneurship Financing: Broadening The Range Of Instruments. *Oecd.Org*. <https://www.oecd.org/cfe/smes/new-approaches-sme-full-report.pdf>
- Olufemi, A. (2012). Home / Archives / Vol. 8 No. 3 / Articles The Impact Of Microfinance Banks On The Growth Of Small And Medium Enterprises In Lagos Metropolis. *European Journal Of Sustainable Development*, 8(3). <http://ojs.ecsdev.org/index.php/ejsd/article/view/871>

- Orinda, D. (2020). Effectiveness Of Loans And Savings In Business Growth: Case Study Of Saccos Groups In Mukono District. [Http://Hdl.Handle.Net/20.500.12281/8734](http://hdl.handle.net/20.500.12281/8734)
- Osoro, K., & Muturi, W. (2013). The Role Of Micro Financial Institutions On The Growth Of Smes In Kenya:A Case Study Of Micro Financial Institutions In Kisi Town. *Journal Of Humanities And Social Science*, 16(1), 83-93. [https://D1wqtxts1xzle7.Cloudfront.Net/32482859/M01618393.Pdf?1386199260=&Response-Content-Disposition=Inline%3b+Filename%3dthe_Role_Of_Micro_Financial_Institutions.Pdf&Expires=1626807062&Signature=Gyaherofmp52euax6hdtr4gilv4beukxmbciw mwlkbbxflxhtdxnod7ua4](https://d1wqtxts1xzle7.cloudfront.net/32482859/M01618393.Pdf?1386199260=&Response-Content-Disposition=Inline%3b+Filename%3dthe_Role_Of_Micro_Financial_Institutions.Pdf&Expires=1626807062&Signature=Gyaherofmp52euax6hdtr4gilv4beukxmbciw mwlkbbxflxhtdxnod7ua4)
- Padachi, K., Howorth, C., & Narasimhan, S. M. (2012). Working Capital Financing Preferences: The Case Of Mauritian Manufacturing Small And Medium-Sized Enterprises (Smes). *Asian Academy Of Management Journal Of Accounting And Finance*, 8(1), 125 -157.
- Rapa, A., & Kauffman, D. (2005). Strategy Implementation – An Insurmountable Obstacle? *Handbook Of Business Strategy*, 6(1), 141 -146.
- Sebhatu, K. (2012). The Impact Of Savings And Credit Cooperatives In Ofla Wereda Tigray Region Of Ethiopia. *European Journal Of Business And Management*, 4(3)
- Smith, J. K., Smith, R. L., & Bliss, R. T. (2011). *Entrepreneurial Finance*. Stanford University Press.
- Talom, F., & Tengeh, R. (2019). The Impact Of Mobile Money On The Financial Performance Of The Smes In Douala, Cameroon.
- Tgs South Africa. (2020). *Small Businesses: How To Survive And Thrive*. Tgs South Africa. Retrieved 08 10, 2021, From [https://Tgssouthafrica.Co.Za/2020/Small-Businesses-How-To-Survive-And-Thrive/](https://tgssouthafrica.co.za/2020/Small-Businesses-How-To-Survive-And-Thrive/)
- Upton, G. (1992). Fisher's Exact Test. *Royal Statistical Society*, 155(3). [https://Rss.Onlinelibrary.Wiley.Com/Doi/Abs/10.2307/2982890](https://rssl.onlinelibrary.wiley.com/doi/abs/10.2307/2982890)
- Us Small Business Administration Office Of Advocacy. (2019, January 30/01/2019). *Small Businesses Generate 44 Percent Of U.S. Economic Activity*. Advocacy.Sba.Gov. [https://Advocacy.Sba.Gov/2019/01/30/Small-Businesses-](https://advocacy.sba.gov/2019/01/30/Small-Businesses-)

Generate-44-Percent-Of-U-S-Economic-Activity/

Vanguard. (2017, November 16/11/2017). African Smes Face \$136bn Financing Gap Annually—Ifc. Vanguardngr.Com. Retrieved July 20/07/2021, 2021, From <https://www.vanguardngr.com/2017/11/african-smes-face-136bn-financing-gap-annually-ifc/>

Whitehead, A. L., & Bell, M. L. (2018). Guidance For Using Pilot Studies To Inform The Design Of Intervention Trials With Continuous Outcomes. *Clinical Epidemiology*, 10. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5779280/>

World Bank. (2019). Small And Medium Enterprises (Smes) Finance Improving Smes' Access To Finance And Finding Innovative Solutions To Unlock Sources Of Capital. Worldbank.Org. Retrieved July 20/07/2021, 2021, From <https://www.worldbank.org/en/topic/smefinance>

Zarrouk, H., Sherif, M., Galloway, L., & Ghak, T. (2020). Entrepreneurial Orientation, Access To Financial Resources And Smes' Business Performance: The Case Of The United Arab Emirates*. *Journal Of Asian Finance, Economics And Business*, 7(12).

APPENDICES
Appendix I: Introduction letter

P.O 41717 -00100

Nairobi, Kenya gmail.com

valgatune gmail.com

Dear Sir/ Madam,

Ref: Letter of Transmittal of data collection

My name is Valentine Mukami Gatune, a Masters Degree student in Project Planning and Management at the University of Nairobi. I am carrying out academic research on the topic, ‘‘Influence of Funding Sources on The Perfomance of Small and Medium Sized Entrepreneurial Projects in Starehe Sub-county, Nairobi County’’, as a requirement for the award of Master’s Degree.

I humbly request for your participation providing data through the attached questionnaire and also answering the questions during the administration of the interview guide. The information provided was handled with utmost confidentiality and used for academic purposes only. You will also have access to the study findings once the study is complete.

Yours faithfully,

Valentine Mukami Gatune

The University of Nairobi

Appendix II: NACOSTI Permit



REPUBLIC OF KENYA



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 634538

Date of Issue: 16/May/2022

RESEARCH LICENSE



This is to Certify that Ms. Valentine Gatune of University of Nairobi, has been licensed to conduct research in Nairobi on the topic: FUNDING SOURCES ON THE PERFORMANCE OF SMALL AND MEDIUM SIZED ENTREPRENEURIAL PROJECTS IN STAREHE SUB-COUNTY, NAIROBI COUNTY, for the period ending : 16/May/2023.

License No: NACOSTI/P/22/17225

634538

Applicant Identification Number

W. Wambui

Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code



NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

Appendix III: Consent Form

Business Name/Description:

CONSENT FORM

Title of Project: INFLUENCE OF FUNDING SOURCES ON THE PERFORMANCE OF SMALL AND MEDIUM SIZED ENTREPRENEURIAL PROJECTS IN STAREHE SUB-COUNTY, NAIROBI COUNTY

Name of Researcher: VALENTINE MUKAMI GATUNE

Please initial all boxes

1. I confirm that I have read and understand the information sheet for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily.
2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason, without my legal employment rights being affected.
3. I understand that relevant sections of my data collected during the study, may be looked at by individuals from the researcher and the University of Nairobi where it is relevant to my taking part in this research. I give permission for these individuals to have access to my records.
4. I agree to my superior being informed of my participation in the study.
5. I agree to take part in the above study.

Name of Participant

Date

Signature

Name of Person Researcher

Date

Signature

Appendix IV: Questionnaire

Section A: Background Information

- 1. Gender
 - Male
 - Female

- 2. Age
 - 19 – 25 years
 - 26 – 32
 - 33 – 42
 - 43 – 52
 - 53 and above

- 3. Marital Status
 - Married
 - Single
 - Other (Specify).....

- 4. Length of business existence
 - Less than 5 years
 - 5-10 years
 - 11-15 years
 - 16-20 years
 - Over 20 years

Section A: The Performance of SME Projects

5. Rate your response on scale of five units whereby 1=totally disagree, 2=disagree, 3=moderately agree, 4=agree, and 5=totally agree

	1	2	3	4	5
My project has increased its average turnover over the last 3 years					
There has been an increase in profits over the last 3 years					
The project's liquidity level is optimal					
The project has opened new outlets over the last 3 years (These include shops, stores and production centers)					
The projects owner has acquired assets over the last 3 years					
The project has enough employees to meet its labor needs					
Over the last 2 years the project has increased its number of employees					
Over the last 2 years the project has reduced its employees					

Section B: The Influence of Banking institutions on the performance of SME Projects

6. What extent do you think banking institutions influence the performance of SME Projects? Rate your response on scale of five units whereby 1=totally disagree, 2=disagree, 3=moderately agree, 4=agree, and 5=totally agree

	1	2	3	4	5
A majority of projects are funded by bank loans					
Bank loans are the preferred funding option					
Bank loans have low interest rates					
Bank loan amounts accessible by the business project can meet its needs					
Bank loans are accessed regularly as per the needs of the business					
Bank loans are processed quickly and funds are availed in a timely manner					
The requirements for bank loans simple					
Bank loans have increased the sales of the business					
Bank loans have helped expand the business					

Section C: Influence of SACCOs on performance of SME Projects

7. Rate the extent of your agreement on the influence of SACCOs on the performance of SME Projects? Rate your response on scale of five units whereby 1= strongly disagree, 2=disagree, 3= moderately agree, 4=agree, and 5=strongly agree.

	1	2	3	4	5
The organization belongs to at least one SACCO and saves through it					
SACCO loan requirements are easy to meet					
SACCO loans are the first option when financing needs arise					
SACCO loans have low interest rates					
SACCO loans have been accessed regularly as per the needs of the business					
SACCO loan amounts are adequate for my business needs					
SACCO loans are processed quickly funds are available in a timely manner					
SACCO loans have helped increase the sales of the business					
SACCO loans have helped expand the business					

Section D: The Influence of Mobile Loans on the performance of SME Projects

8...What extent do you think mobile loans have an influence on the performance of SME Projects? Rate your response on scale of five units whereby 1=No extent at all, 2= little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
The SME owner is registered on at least one mobile lending platform					
Mobile loans are the first option when funding is needed					
Mobile loans have low interest rates					
Mobile loan requirements are easy to meet					
Mobile loan amounts are adequate for the business project’s funding needs					
I have accessed mobile loans regularly as per their needs					
I access mobile loan services using an online app					
I access mobile loan services using my SIM Card					
Mobile loans have helped increase the sales of the business					
Mobile loans have helped the business expand					

Section E: The Influence of Informal Funding on the performance of SME Projects

9...What extent do you think informal funding has an influence on the performance of SME Projects? Rate your response on scale of five units whereby 1=No extent at all, 2= little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
The business is able to regularly save money after meeting its expenses					
Business savings are an important source of funding for business projects					
I am able to raise adequate amounts for funds from friends and family					
My suppliers allow me to take stock on credit					
My fellow business project owners lend me money from time to time					
I have a reliable pool of savings from which I can finance my activities					
Informal funding has helped the project increase its sales and revenue					
Informal funding has helped the SME carry out expansion projects					

