

**THE EFFECT OF MICROFINANCE SERVICES ON FINANCIAL  
PERFORMANCE OF SMALL MEDIUM AND ENTERPRISES IN NAROK  
COUNTY**

**BY**

**KOILA TITUS LESEYIO**

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**DECLARATION**

This research project is my original work and has not been submitted for any awards in any other university.

**Signed..... Date.....**

**KOILA TITUS LESEYIO**

**D61/60297/2013**

This project has been submitted for examination with my approval as university supervisor

**Signed..... Date.....**

**DR. J. ADUDA**

**DEAN, SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI**

## **DEDICATION**

This research project is dedicated to my beloved wife and children, for their love and moral support and also to my dear parents for the sacrifices they made in educating me.

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## **LIST OF ABBREVIATION**

CDF:	Constituency Development Fund
GDP:	Gross Domestic Product
MFIs:	Micro Finance Institutions
NGOs:	Non-Governmental Organisations
SMEs:	Small Medium Enterprises
SPSS:	Statistical Package for Social Science

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## ABSTRACT

The main purpose of the study sought to investigate the effect of microfinance services on financial performances of SMEs in Narok County. The study was guided by specific objectives as follows: to determine the significance of microfinance services on promoting SMEs growth; to find out the contribution of microfinance services on facilitating SMEs access credit; to analyse the effect of lending rates of microfinance institutions on financial performance of SMEs and to determine the effect of small frequent deposits to microfinance institutions on financial performances of SMEs in Narok county. The study adopted a descriptive research design.

The study target population was 93 selected enterprises. Structured questionnaires were used for data collection. The completed questionnaires were reviewed and edited for accuracy, consistency and completeness. The responses were then coded and entries made into Statistical Package for Social Science (SPSS version 20). The data was analysed using descriptive statistics, such as mean scores, percentages and standard deviations. Regression and correlation analysis was applied to show the relationship between variables.

The study findings established that the existence of MFIS services has contributed to the development of SMES; the provision of credit has increasingly been regarded as an important tool for raising the incomes of youths, mainly by mobilizing resources to more productive uses; making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased and the promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Narok County.

The study recommended that basic business skill training should accompany the provision of micro loans to improve the knowledge of the poor to use these funds in growth of their enterprises; MFIs should addresses capital investment decisions, general business management and risk management in Narok County; policies should be placed to regulate the growth of SMEs in the region and provide support for the starting entrepreneur; MFIs should develop practical strategies and approaches in implementing and supporting the bold ambition of reducing poverty in Narok County; microfinance services in its entirety should report effect on savings, income and investments alongside non-financial study specifically investigating these aspects and MFIs should also consider the performance of the business before allocating money to the business owners.

## **CHAPTER ONE**

### **1.1 Background of the study**

#### **1.1.1 Microfinance Services**

Micro Finance Services refer mainly to small loans; savings mobilization and training in micro enterprise investment services extended to poor people to enable them undertake self-employment projects that generate income. Micro finance came into being from the appreciation that micro entrepreneurs and some poorer clients can be 'bankable', that is, they can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs (Von, 1991). Micro finance is perceived as the provision of financial and non-financial services by Micro Finance Institutions (MFIs) to low income groups without tangible collateral but whose activities are linked to income generating ventures (Lidgerwood, 1999 and Christen and Rosenberg, 2000). These financial services include savings, credit, payment facilities, remittances and insurance. The non-financial services mainly entail training in micro enterprise investment and business skills. There is also a belief that micro finance encompasses micro credit, micro savings and micro insurance (Roth, 2002).

Micro finance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. The aim was to provide collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers were organized into groups and peer pressure among them reduced the risk of default (Khan and Rahaman, 2007). In

many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds (Webster and Fidler, 1996). Micro financing should address capital investment decisions, general business management and risk management. In the world over, provision of micro finance services to the youth has been considered an innovative and sustainable approach to youth financial and micro enterprise activities empowerment leading to generation of income so as to improve their livelihoods and contribute to economic growth. Debates on extending the reach of microfinance to the very poorest people increasingly focus on savings facilities. For many youth, savings facilities are essential in increasing the amount of income under their control and in building assets. In remote areas, mobilization and intermediation of member savings may be crucial first steps before accessing external loan funds.

### **1.1.2 Financial Performance**

According to Brown (1996), financial performance measures must focus attention on what makes, identifies and communicates the drivers of success, support organization learning and provides a basis for assessment and rewards. On the other hand, West and Fair (1996), define performance as a function of an organization ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Studies by Whyte (1991), show that performance can be measured at both organization and individual levels and this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potentials in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved.

Many diverse institutional models of micro financing are functioning in Africa, but most clients are served by credit unions and co-operatives often based (particularly in East Africa) on the agricultural commodities. Their members sell (*e.g.* coffee, tea, cotton *etc.*) or the nature of their employment (Wright, 2005). In West and Central Africa however, savings and credit cooperatives are generally more community-based. In contrast to Asia, the lack of population density means that rural and agricultural finance is particularly challenging, and thus many MFIs are urban-based and focused. Perhaps, as a result, the July 2003 Micro Banking Bulletin identified only eight sustainable institutions and estimated that only around twenty five million clients are being served throughout the continent. However, these numbers may under-estimate or ignore the large numbers being served by cooperatives and postal banks. Nonetheless both international and domestic banks are starting to take an interest in the potential of the low-income market in Africa. The study also noted that for the last twenty years, there have seen significant improvements in micro financing through understanding and providing financial services to better advance development and eradicate poverty. This includes providing the financial means to save, access credit, and start small businesses, with the potential to enhance community development, as well as local and national policy making. When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of financial empowerment by which the poor can lift themselves from poverty.

The micro financing revolution effectively demonstrates that when poor households have access to financial services, not only do they save, but, they also have high repayment rates when they borrow. It is noted that, microfinance institutions have made financial services available to millions of poor households worldwide but this still represents a tiny fraction of the population in developing countries where the majority lack access to formal financial services.

### **1.1.3 Microfinance Services and Financial performance**

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

A number of studies have observed that savings-led groups perform better than credit-led ones (Allen 2005; Murray and Rosenberg 2006; Ritchie, 2007). Access to micro-finance has the potential to assist the poor in earning income from microenterprises, smooth their income and consumption (Zeller, 1999), help households diversify their income sources. (Anand et al, 2005). According to Mosley (2000) microfinance makes a considerable contribution to the reduction of poverty. It helps increase income earning and asset building opportunities which make households less reliant on a single asset type and consequently deal with disasters (Anand et.al, 2005).

According to Hassan (2002), many Grameen Bank borrowers were actually building larger houses. Panganiban (1998) advances that the income of borrowers has risen and their assets base has widened. Investments made by loans appear to have been extremely productive and to have contributed significant improvements in household output, income and consumption (Ghai, 1984). In Tegucigalpa and Cholteca in Honduras in 2003, effect assessment studies revealed that 60% and 50% of the recipients had their sales and incomes increase respectively one year after receipt of credit for working capital. Agricultural Finance Cooperation Limited in 2008 in India, assessed development effect of microfinance programmes. Clients reported increase in income from 76% of activities. There is therefore reason to believe microfinance services in its entirety should report effect on savings, income and investments alongside non-financial study was specific in investigating these aspect.

#### **1.1.4 SMEs in Narok County**

Narok County is one of the forty seven counties in Kenya. It is geographically located to south rift. Its cover an area of 17944 km<sup>2</sup>. Narok county has a population of 850,920 according to the national census 2009 (GoG, 2009)

Majority of SMEs are located in Narok town which is the Headquarter of the county. The town is very busy and over the past five years the economics of Narok town has grown exponentially. The main economic activities is the tourism sector which brings an estimate 10 billion Kenya shilling annually as well as wheat farming, which is done both in large and small scale. The entrance of big supermarket banks and other financial



institution seems as an indication of growth in the county. The county has more ten MFIs that offer financial services to local.

Most of SMEs are involved in trading, farming and hotel industry. Access to finance services allows SMEs to expand their businesses and to acquire the best management, thus ensuring their competitiveness and improves performance. However due to their characteristics, SMEs in Narok suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information.

Access to financial resources is constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts.

To overcome some of the constraints, the government through CDF Kitty and Uwezo funds has designed programs and policies that are market driven and market non-distorting to support SMEs in the county. Nevertheless, the challenge to SMEs in

accessing financial services will also depend on how they themselves increase their creditworthiness.

## **1.2 Research Problem**

Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half" (UNCDF, 2005). According to Aghion and Morduch (2005), microfinance presents series of exciting possibilities for extending markets, reducing poverty and fostering social change. Microfinance can be a successful market solution to resolve the failures of the credit markets and solidarity sentiments prevail amongst the members who constitute microfinance groups.

The key element of the microfinance institutions' approach to alleviation of poverty and improving the living in many developing countries is to provide credit and organizational support to their clients, who do not have assets to use as collateral in obtaining loans from formal financial institutions. Although governments realize that resource-poor rural households need affordable credit to enhance household incomes, the formal financial institutions failed to reach the poor because they adhere to stringent collateral requirements, and the credit disbursement and recovery procedures are not suitable for their economic environment (Adams and Vogel, 1986).

FinScope & Mattoo (2010) and Payton (2007) on the study of financial services in Kenya noted we have had many SMEs lining up in Banks in Kenya to get loans at very high

interest rates despite of the massive increase in MFIs in the recent past. They also noted that the increase in the number of MFIs in the country was not reflected in the financial performances of enterprises. They recommended a research to be done in future to explain the effects of MFIs services to financial performances of SMEs. This research hence seeks to explain the effects of micro finance services on financial performances of SMEs in Narok County.

### **1.3 Objective of the Study**

To investigate the effect of microfinance services on financial performances of SMEs in Narok County

#### **1.3.1 Specific Objectives**

The specific objective of the study were;

- i. To determine the significance of microfinance services on promoting SMEs growth
- ii. To find out the contribution of microfinance services on facilitating SMEs access credit
- iii. To analyse the effect of lending rates of microfinance institutions on financial performance of SMEs
- iv. To determine the effect of small frequent deposits to microfinance institutions on financial performances of SMEs in Narok county

#### **1.4 Significant of the Study**

This study will be of value to difference stokehold including scholars and academicians, MFI clients, microfinance institution and the policy makers in Kenya. To scholars and academicians, this study will increase body of knowledge on the effect of microfinance services on the performance of SME in Kenya .It will also suggest areas for further research so that future scholars can tries up these areas and study further. The study is important to the government especially ministry of treasury and devolution for making policy decision that will enable it to educate MFI clients on the importance to loan to SMEs. To the MFI client, this study has helped them to broaden level of thinking in sourcing equity through financial institutions and develop saving scheme skills for business.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter examines literature that is related either directly or indirectly to the study. This was done by reviewing existing theoretical and empirical literature. The chapter also reveals the conceptual framework to guide the study.

#### **2.2 Theoretical Literature**

##### **2.2.1 MFIs Joint Liability Theory**

The first wave of theoretical work on microfinance focused exclusively on joint liability. The term joint liability can be interpreted in several ways, which can be lumped under two categories. First, under explicit joint liability, when one borrower cannot repay her loan, group members are contractually required to repay in her stead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral. Second, the perception of joint liability can be implicit. That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. One form in which this can happen is if the microfinance organization itself chooses to fold its operations when faced with delinquency.

Ghatak and Guinnane (1999) review the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit-

constrained borrowers. These all have, in common, the idea that joint liability can help alleviate the major problems facing lenders screening, monitoring, auditing, and enforcement by utilizing the local information and social capital that exist among borrowers. In particular, joint liability can do better than conventional banks for two reasons. First, members of a close-knit community may have more information about one another (that is, each other's types, actions, and states) than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbors may be able to impose powerful non-financial sanctions at low cost. An institution that gives poor people the proper incentives to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank.

Fischer and Ghatak (2009) propose an alternative theory based on present-biased, quasi-hyperbolic preferences in order to capture the belief of many microfinance practitioners that clients benefit from the fiscal discipline required by a frequent repayment schedule. Their work is motivated by a pervasive sense among practitioners that frequent repayment is critical to achieving high repayment rates.

An alternative view of frequent repayment focuses on the meetings rather than the act of repaying itself. Rai and Sjöström (2004) argue that frequent meetings serve as a means for the lender to extract information about borrowers' projects. By asking borrowers to report on their partner's and their own projects and punishing borrowers when reports do not match, the lender can determine if a default is strategic or if a borrower genuinely

cannot repay. Under joint liability without these repayment meetings, there is no way to know if a borrower has the means to repay. It is this cross-reporting at group meetings that improve efficiency. Disentangling the effects and mechanisms behind alternative repayment structures provides an interesting opportunity for future research turning back to credit mechanisms other than frequent repayment.

### **2.2.2 Classical and Australian school theory**

These theories considered differences in attitudes and abilities among individuals as critical issues in determining why some small firms grow and others do not. Two schools of thought, the Austrian School and the Classical Economist were the first to acknowledge the role of the entrepreneur in small business development; they recognize the entrepreneur as an individual with special characteristics. Knight (1921) described an entrepreneur as someone that has the willingness and superior ability to make decisions, raise capital and assume the risk of failure. In the same vein, Schumpeter (1939) added among other things, the fact that an entrepreneur has the superior ability to perceive new market opportunities. He sees the entrepreneur as an innovator.

According to the Austrian school, people have certain characteristics that are associated with the productivity for entrepreneurship. Individuals who have more of these characteristics are more likely to become entrepreneurs than those who have fewer. An individual chooses to create a new business so as to maximize his expected utility. This utility is a function of entrepreneurial activity or wage income, and of attitudes that affect the utility that the person derives from entrepreneurial activity, such as one's taste toward

work effort, risk, independence, working close to customers, etc. Income, in turn, depends on the individual's ability to generate profit, such as managerial abilities to raise capital, and abilities to perceive new market opportunities and to innovate (Papadaki and Chami, 2002).

The classical school, have extended analysis of the decision to start a business to that of the decision to grow the business. According to Davidson (1989, 1991), firm growth is an indication of continued entrepreneurship. Davidson notes that economic theories take the willingness to grow a business for granted, by assuming profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable expansion and that profitable firms of different sizes co-exist within industries. According to Papadaki and Chami (2002), theories on small business growth and development view business growth from an organizational life cycle perspective, which sees growth as a natural phenomenon in the evolution of the firm, other perspective sees growth as a consequence of strategic choice. It is obvious that attributes of the business owner, organizational resources and environmental opportunities are crucial in expanding the firm and in overcoming the barriers to the evolution of the firm from one stage to the next. Sexton and Smilor (1997), and Carland (1984) distinguished between a business owner and an entrepreneur. According to them, an entrepreneur is committed to the growth of the business. Growth is the very essence of entrepreneurship," and commitment to growth is what primarily distinguishes small business owners and entrepreneurs.



### **2.2.3 Economic Theory**

The economic theory treats microfinance institutions (MFIs) as infant sector, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as social consciousness driven people. The economic argument is that success in any business venture, including MFIs, is determined by the entrepreneurs' ability to deliver appropriate services and profitably (Remenyi, 2000).

At best, some MFIs cover their operating costs while some of the better known among them are able to cover in part the subsidized cost of capital employed. This situation suggests that the MFIs will not become financially viable in the long run. One solution to this problem is to treat MFIs as infant industries, so that micro-lending businesses can be subsidized during their initial stages of operation. This subsidization would be beneficial to both the economy and society because this will help micro lenders realize economies of scale and the offering of the best services that suit the Medium and small enterprises in empowering them financially (Wright, 2000).

The logic goes as follows: Over time, as clients of MFIs, micro entrepreneurs will establish their economic contracts with banks, retailers, government employees, and suppliers of production inputs, which will improve their skills dealing with money management, contractual obligations, and resource management (Robinson and Marguerite, 2002). These skills should reduce the cost of transaction, disseminate information, and increase the micro entrepreneurs' ability to assess effectively available information to make sound business decisions. In this respect, society benefits from what

is, in effect, a productive process leading to the creation of public goods as spin-offs from the growth of microfinance. To the extent that these public goods have value, they are a legitimate basis, on which to provide subsidies to MFIs while the transition to widespread outreach to poor households is ongoing (Remenyi, 2000).

## **2.3 Determinants of Financial Performance of SMEs**

### **2.3.1 MFIs access to credit**

Study by Rosenberg (1999) noted that Micro Finance Institutions (MFIs) are increasingly a central source of credit for the poor in many countries. Weekly collection of repayment instalments by bank personnel is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. Some of the factors that lead to loan default include; inadequate or non-monitoring of micro and small enterprises by banks, leading to defaults, delays by banks in processing and disbursement of loans, diversion of funds, over-concentration of decision making, where all loans are required by some banks to be sanctioned by Area/Head Offices. This method of providing small credits to the poor is most used by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders (Natarajan, 2004). The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 1990). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral

which is term social collateral. This is to avoid the problems of adverse selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it (Armendariz, 1994). This is the lending of loans to individuals with collateral.

The provision of credit has increasingly been regarded as an important tool for raising the incomes of youths, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the youths to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities for example, requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the youth to accumulate their own capital and invest in employment-generating activities (Hossain, 1999).

### **2.3.2 MFIs Borrowing rates**

According to Chossudovsky (1998), the World Bank Sustainable Banking with the Poor project (SBP) in mid-1996 estimated that there were more than 1,000 microfinance institutions in over 100 countries, each having a minimum of 1,000 members and with 3 years of experience. In a survey of 2006 of such institutions, 73 per cent were NGOs, 13.6per cent credit unions, 7.8 per cent banks and the rest savings unions. An overwhelming majority of the world's poor live in the third world countries. Various approaches have been employed in alleviating poverty of which provision of credit that

targets the poor is one. Many are now of the opinion that allowing the poor to have command over resources through credit can contribute towards poverty alleviation. Kiteme (1992) argues that the best way to do something about poverty is to let the people do their own thing. Nobody will have more motivation to change his situation than the sufferer himself/herself.

A study by Besley and Coate (1995) says that despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights 21 that members in group lending bear high risk because they are not only liable for their loans but to that of twenty-two group members. Navajas et al. (2003) and Zeitingner (1996) recommend the importance of routine visits to the clients to make sure the loan is use for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institutions.

### **2.3.3 MFIs Savings**

The importance of savings accumulation may be particularly important for entrepreneurs with cyclical or uneven income patterns. The portion of the economy represented by microenterprises has been called the informal sector. This is because of the informality that characterizes these businesses during the process of initial start-up and throughout on-going operations. Time necessary to start an enterprise is limited. Legal restrictions, if in existence, are rarely enforced. There is a chronic lack of standards in goods and

services. Few operations, even those related to food preparation, are registered. While local councils may have a registration process, it is usually marred by bureaucracy and bribery.' Consequently, many entrepreneurs choose not to register. Even if an entrepreneur chooses to register, there is no guarantee that business operations will be free from harassment or even evictions by local government wuncils (Juma, Torori, and Kirirna 1993).

A study by Zeller 1995 shows that liquid savings are better at smoothing household consumption than are other savings techniques. Savings can be withdrawn to cover healthcare and used in other times of emergency. Use of savings accounts is an important source of growth of the household economic portfolio. A safe account for mobilizing liquid savings provides an intermediate means for mobilizing sufficient funds to use for larger, lumpy investments. Ability to withdraw funds from a bank account reduces the need to use inconvenient savings techniques. Withdrawing money from a business is a common, but potentially deceptive means of funding household expenses and unforeseen business expenses. A savings account could improve the ability to plan and cover these expenses.

Daniels, Mead, and Musinga (1995) conducted a survey and noted that over 60 percent of the Kenyan entrepreneurs reported having a bank account. Only 35 percent, however, made more than one deposit per month. Even in countries with advanced financial network in Africa (Azam 1996), use of bank accounts by entrepreneurs is limited. The use of commercial banks by low-income people throughout Africa is minimal. This is

part of the reason for the popularity of informal savings mechanisms. Approximately 70 percent of the population in Africa lives in rural areas which have received limited penetration by commercial banks (Miracle, Miracle, and Cohen 1980). If an entrepreneur has to travel a long distance to a bank, transaction costs will increase dramatically. Commercial banks also have been perceived as unfriendly by low-income savers. Most banks target middle- to upper-income customers, because of the perceived higher savings potential of this market. Marketing procedures correspondingly focus on this segment of the population. Bank account procedures may be deemed too complex for entrepreneurs with limited education. The deposits offered by low-income clients are deemed undesirable, as their savings potential has been underestimated.

#### **2.4 Review of Empirical Research on MFIs**

An empirical study of SMEs growth pattern by Kolvereid and Bullvag (1996) concluded that growth intentions may be used to predict actual growth, that past intentions are related to later intentions, and that change in growth intentions are associated with changes in growth patterns. Arbaugh and Sexton (1996) provided empirical evidence that most new firms do not grow into large ones and that there is no relationship between the age of a firm and its size. Chaston and Mangles (1997) opined that there is no single strategy to firm growth. Hence, the probability of achieving growth is increased by avoiding excessive emphasis on single-strategy transformation initiatives, and by giving different capabilities priority depending upon the development stage of the firm. They identified three factors that could limit the growth of small business to include ability, need and opportunity.

Kolveired(1992) concluded that small business entrepreneurs who wanted their firms to grow started their business in order to achieve just that. The process of mutual adjustment between proprietors and their employees was identified by Goffee and Scase (1995) as a major constraint limiting factor to small business growth. Niskanen and Niskanen (2007) investigated the determinants of growth in a sample of small and micro Finnish firms. Firm growth is examined on a number of firm specific and relationship lending characteristics. The data set provides an excellent opportunity for investigating the effects that firm specific factors have on firm growth. The study investigated the relationship between firm growth and relationship lending variables. They are also able to provide new information on the role that legal form has on firm growth by using more detailed ownership variables. The results on relationship lending effects suggest that an increase in the number of lending banks decreases growth rates in the larger firms and that an increase in the number of banks operating in the county where the firm is located enhances growth of the larger firms and decreases growth rates of the smaller firms. It could, therefore, be argued that close lending relationships enhance growth for all firms, but that only the larger firms in the sample benefit from more competitive banking markets.

Brown, Earle and Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes appears as constrain to growth. The data suggest that entrepreneurial skills have little independent effect on growth, once

demand conditions are taken into account. The evidence for the effectiveness of technical assistance is weak: only assistance provided by foreign partners yields a positive effect. A wide variety of alternative measures of the business environment (contract enforcement, property rights, and corruption) are tested, but none are found to have any clear association with firm growth.

Small and Medium Enterprises (SMEs), according to the National Micro and small enterprises Baseline survey of 1999, contribute 20% to the GDP of Kenyan economy. The vision of Microfinance on the other hand is to steer the growth of micro enterprises. There has been a rapid growth in the Microfinance sector over the years. However despite this growth in Microfinance, recent studies like that of Bowen and Makarius (2009) shows that over 50% SMEs continue to have a deteriorating performance with three in every five SMEs falling within the months of establishment. This then lead to the question of the effectiveness of the role of microfinance in promoting the financial performance of SMEs.

Mugori, (2011) did a study to evaluate the effect of access to microfinance on the financial performance of youths owned small and medium enterprises in Nairobi County Kenya. The study employed a cross sectional survey design. A sample of 100 youths' owned SMEs was selected from a population of over 235 000 SMEs using a simple random sampling technique. The researcher used both the primary and secondary data. The primary data was collected by use of semi-structured questionnaires. Quantitative data was analysed by use of descriptive statistics and multiple regression analysis. The



study found that most SMEs borrow investment capital with few inheriting their business from their parents or guardians. The empirical results further revealed that loan had the largest significant effect on the financial performance of small and medium enterprises with a beta coefficient of 0.309 followed by savings mobilization with a beta coefficient of 0.210 and training in micro enterprise investment had the least but significant effect with a beta coefficient of 0.048.

Based on the findings, the study concludes that provision of microfinance services has a significant effect on the financial performance of the youths' owned enterprises in Kenya. Therefore the provision of microfinance to the youths to engage in small and medium enterprises will spur economic development and keep our Kenyan youths busy thus avoiding disasters like what the country experienced in the post-election violence in 2008. From the study findings, the study recommends that in order to enhance the effects of microfinance services on the financial performance of SMEs owned by youths in Kenya, the MFIs should continuously train their clients on entrepreneurial skills. Government should also consider partnering with MFIs to enhance this training or even establish institutions for strictly training youths in entrepreneurial skills. The study also recommends that academicians to carry on a research by comparing those youths who are beneficiaries of MFIs services and those that are not but are engaged in SMEs.

A study done by Mbugua, (2010) noted that the potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million or 60 % of the population are poor and mostly out of scope of informal banking

services. According to the National Micro and Small Enterprise Baseline survey of 1999, there are close to 1.3 million SMEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of the overall GDP and 25% non - agricultural GDP. Despite this important contribution only 10.4% of the SMEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector risky and not commercially viable. The purpose of the study was to establish the impact of microfinance services on financial performance of SMEs in Kenya. Survey method was employed in this study. The study population consisted of all SMEs in Nairobi.

The study adopted systematic random sampling method with an interval of 50 SMEs. The sample size was 47 SMEs. The researcher used primary and secondary data. Primary data was collected through the use of semi-structures and structured questionnaires. Quantitative data was analyzed using descriptive and inferential statistics. The study found that all SMEs borrow investment capital and they use it for the purpose in which they were borrowed, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions . Based on the findings, the study concludes that SMEs got savings services, credit services and training services from SMEs. The SMEs mostly borrow investment capital and use the loan(s) for the purpose which they were taken. The study revealed that most of the SMEs do not have other source of financing other than that from micro-finance institutions. The study finally concludes that ROA increased with each consecutive loan showing that

microfinance services enhance financial performance of SMEs in Kenya. From the study findings, the study recommends that in order to enhance the impact of microfinance services on financial performance of SMEs in Kenya, the MFIS should train the borrowers on entrepreneurial skills so as to enhance their competence. The MFIs should also consider the performance of the business before allocating money to the business owners.

Wanambisi (2010) in a study on the impact of microfinance services on financial performance of SMEs in Kakamega County, Kenya. Governments, donor agencies and private investors are funding an increasing number of microfinance programs in low-income countries. The findings of this research would enable all these financiers to know if their efforts are creating meaningful impact on SMEs. A sample survey research design was employed in this study. This enabled the researcher to give adequate attention to each return received from the respondents' in order to enhance accuracy. All the microfinance institutions (MFIs) operating within the county were involved in the study with a proportionate sample of SMEs being obtained from each MFI on the basis of total SMEs population served. A Likert scale questionnaire was used to map the responses obtained on the impact of microfinance services. Descriptive and inferential statistics are used for the purpose of data analysis. Mean was used to measure the average satisfaction level and standard deviation used to measure the extent of diversity of respondents' opinions (agreement level). Regression model was used to measure the general relationship between microfinance services and financial performance. The research finds out that microfinance services has had a positive impact on the various dimensions that

constitute financial performance.

The research therefore concludes that microfinance services have improved the financial performance of SMEs in Kakamega County, Kenya. The provision of financial services, especially credit and saving facilities plays an important role in the development of the economy. Despite the efforts of microfinance institutions to take microfinance services within the reach of poor people and MSEs that have not benefited from the conventional formal financial system, growth and expansion of MSE's sector had not shown any sign of growth and expansion. The main objective of that study was to investigate the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality. This study adopted a descriptive survey research design and the target population was 1,200 MSEs which were registered within Kitale Municipality and had operated for at least three years. The target population was stratified into homogeneous categories as wholesalers, retailers, restaurants and service delivery. A sample of 120 MSEs was drawn proportionately and randomly from the strata. A semi-structured questionnaire was used to collect data. Completed questionnaires were verified and coded by the researcher in a computerized package then analysed and summarized in frequency tables, pie charts and figures. The association between microfinance lending and MSE performance variables was established through Chi square and correlation tests at 95% significance level.

A multivariate logistic regression was used for significant vicariate variables at 95% significance level. The amount of loans is significantly and positively related with

performance of MSEs in Kitale Municipality. Microfinance institutions should reduce the period required for MSEs to participate in training and group formation to facilitate speedy access to MFI loans. The study concludes that the amount of loan given by MFIs to MSEs should be increased to enable the MSEs grow to medium scale enterprises.

## **2.5 Factors that affects performance of SMEs**

SMEs play a significant role in the socioeconomic development process of Kenya by contributing significantly to the overall growth in terms of Gross Domestic Product (GDP), creating employment and exports. The 1999 Baseline Survey [CBS, ACEG & K-REP] indicated that there were 1.3 million SMEs which contributed to 18% of Kenya's GDP. By the end of 2001 informal employment was estimated at 4.2 million contributing 72% of total wage employment and 81% of private sector employment.

Most SMEs heavily depends upon bank loans and generally experience a 'financing gap,' even in developed countries. This financing gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Research suggests that the fundamental reasons behind the SMEs' lack of access to funds can be found in their peculiar characteristics, in addition to the fact that SMEs suffer from financing gaps because of market imperfections on the supply side. In reality, SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides.

One of the perennial problems of SMEs is the access to capital; banks have had difficulties in financing SMEs. Some of the reasons why banks are reluctant to lend SMEs include lack of collateral required by banks; inadequately compiled financial records and accounts and low level of technical and management skills (Wanjohi and Mugure, 2008). According to statistics from World Bank Investment Climate Surveys (2002-2003), Equity Financing constituted to 0.58% as a source of financing to SMEs in Kenya.

There has been a rapid growth in the Microfinance sector over the years in Kenya. However despite this growth in Microfinance, recent studies like that of Bowen and Makarius (2009) shows that over 50% SMEs continue to have a deteriorating performance with three in every five SMEs falling within the months of establishment.

There is a chronic lack of standards in goods and services. Few operations, even those related to food preparation, are registered. While local councils may have a registration process, it is usually marred by bureaucracy and bribery.' Consequently, many entrepreneurs choose not to register. Even if an entrepreneur chooses to register, there is no guarantee that business operations will be free from harassment or even evictions by local government council (Juma, Torori, and Kirirna, 1993). This presents an obstacle in encouraging long-term business development. As the name implies, microenterprises have few workers. Most employ less than 10 people.

A study done by Daniels, Mead, and Musinga (1995), one person microenterprises comprise 58 percent of the Kenyan informal sector. The mean size is 1.8 workers per enterprise. Informal sector businesses with one or two employees comprise 83 percent of Kenyan microenterprises. This often reflects cooperation between nuclear or extended family members in running business operations. Micro-enterprises require minimal start-up capital.

A study conducted by Juma, Torori, and Kirima (1993) found that 55 percent of the informal sector artisans in Kenya started with less than Ksh 5,000 (US\$96). Over 85 percent started with less than Ksh 10,000 (US\$194). The study conducted by Daniels, Mead and Musinga (1995) yielded similar results, Over 80 percent of the respondents in this later study started with less than Ksh 10,000 (US\$195). Refer to *de Soto* (1989) for a description of the difficulties of businesses within the informal sector to register. Microenterprises require few machines to conduct operations. The labor-intensive nature of these businesses replaces capital-intensive techniques. Over 75 percent of the respondents in a survey conducted by Daniels, Mead, and Musinga (1995) reported using self-fun&, or some form of savings, as the primary source of capital. Family and friends provided the second most important source of funds. Borrowing from other sources, including credit received from formal financial institutions, employers, Financial Self-help Associations and other informal sources were of minimal importance in providing start-up capital. Studies of small enterprises in other countries provide similar results.

## **2.6 Chapter Summary**

Microfinance institutions are an asset to the developing and transition countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the members are not by itself a solution to the numerous problems affecting the poor. These problems range from business skills, lack of financial intermediation services, and the lack of markets, technology etc. This financial intermediation services will only provide a plat-form for those who are considered not fit to meet the obligations of the banks to be a client. SMEs are very much affected by these constraints and these MFIs are towards bridging the gap between formal and informal financial services. It should be noted that microfinance does not serve or solve all the problems of the poor but it serves as a means of helping them to boost their economic activities or augmenting their status. According to Hulme et al (1996), microfinance schemes often are of paramount importance when the targeted problem is in its initial stage and not when it has emanated. Microfinance is only a portion of what is needed to boost an enterprise activity in the rural areas and who are incapable of getting the necessary assistance from a commercial bank. It develops new markets, increases income, creates and accumulates assets and promotes a culture of entrepreneurship.

There is increasing development of micro finance institutions in Kenya today. This is due to the fact that Kenya is a developing country and majority of the people are paid lowly and other are low income earners from their medium and small enterprises and furthermore other are living below poverty line. It is widely assumed that micro-finance



services have a positive impact on medium and small enterprises livelihood in Leading to higher income.

The products and services and also the convenience of the microfinance institutions is noted to be one of the driving forces behind its success. Despite the high interest rate charged sometimes, their products and services are still demanded but at times they are subsidized by the government or NGOs. The main underlying factor here is that commercial banks do not serve poor clients with small loans located in the rural areas.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discuss the research design, the description of the population, data collection instruments and sample procedure, validity and reliability of research and data analysis procedures.

#### **3.2 Research Design**

Descriptive research design was used in the study. This is because it determines and reports the way things are. It attempts to describe such things as possible behaviour, attitude, values and characteristics. Descriptive research aimed at generating knowledge that might be useful to describe or develop a profile of the study.

#### **3.3 Target Population**

The study targeted 139 SMEs and 11 MFIs within Narok Town. The owners of the enterprises and the staff of the MFIs were the key respondents in the research.

#### **3.4 Sampling of the study**

The study adopted the stratified random sampling. According to Mugenda and Mugenda (2005) a third of the population is an ideal sample. The population is divided into three strata and a sample is selected from each stratum. One stratum was the Enterprises dealing in Food and beverages the second strata was of the enterprises dealing in clothes and related wears and the third strata was for others included enterprises dealing with

electronics, cyber cafes, hard wares and transport industry. This enabled the researcher to control the sample size in the strata, increase statistical efficiency, and provide data to represent and analyse subgroups and enable use of different methods in the strata. Data was collected from every other third shop from the sample of each stratum.

**Table 3.1: Sampling Frame**

<b>Enterprise</b>	<b>Number of Enterprises</b>	<b>Enterprises selected</b>	<b>Percentage</b>
Food and Beverages	54	13	22%
Clothes and related wears	64	16	25%
Others	21	10	48%
MFIs	11	11	100%
<b>Total</b>	<b>150</b>	<b>50</b>	

### **3.5 Data Collection**

The researcher used a structured questionnaire for data collection. According to Best and Kahn (2004) a questionnaire is easy to administer. Questionnaires also reduce bias since the researchers' own opinions would not influence the respondents to answer questions in a certain manner unlike if it were a telephone or face to face surveys.

### **3.6 Data Analysis**

The completed questionnaires were reviewed and edited for accuracy, consistency and completeness. The responses were then coded and entries made into Statistical Package for Social Science (SPSS version 20). The data was analysed using descriptive

statistics, such as mean scores, percentages and standard deviations. The results were presented in frequency tables. Regression and correlation analysis was applied to show the relationship between variables.

Because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analyses were used for data analysis. Descriptive analysis goes beyond merely counting words or extracting objective content from texts to examine meanings, themes and patterns that may be manifest or latent in a particular text. Qualitative content analysis is mainly inductive, grounding the examination of topics and themes, as well as the inferences drawn from them, in the data. In some cases, descriptive analysis attempts to generate theory (Zhang & Wildemuth, 2011).

Descriptive statistics was used to show central tendencies such as the mean and measures of dispersion such as the standard deviation. The inferential statistic was used to show the nature and magnitude of relationships established between the independent, intervening and dependent variable using regression analysis. This was done by using computer software referred to as “statistical package for the social sciences (SPSS)” version 17. This entails data cleaning and organization. Then the data was coded and classified as well as screened for accuracy. The data was then entered into the computer in order to perform descriptive and inferential statistic.

Descriptive statistics was performed in order to describe the data by showing measures of central tendencies (means) and measures of dispersion (standard deviation). This is for

the purpose of providing summaries concerning the sample population and the measurement thus describing what the data is and what it shows.

Then inferential statistics was done to show the nature and magnitude of relationships established between independent, intervening and the dependent variable using regression analysis to make inferences from the data collected to a more generalized conditions. Each inferential analysis was linked to specific research questions that were raised in the study.

### **3.6.1 Analytical Model**

Multiple linear regression models using ordinary least square stepwise method was applied to investigate the effect of microfinance services on financial performances of SMEs in Narok County. The regression model was of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where:

Y = SMEs performance

$\beta_0$  = Constant Term

$X_1$  = SMEs access to credit

$X_2$  = Borrowing rates

$X_3$  = Loan Size

$X_4$  = SMEs saving

### **3.7 Data Validity and Reliability**

Prior to visiting MFIs for data collection researcher had obtained a letter from authorities to permit him proceed in obtaining that data. The purpose of the letter was to ensure trust worthiness by the respondent and therefore abled to provide quality and reliable information. The content validity and reliability was assured by ensuring that each question in the questionnaire and interview schedule was valid and correctly structured for easy understanding.

To ensure reliability the research pre-tested the questionnaire using two microfinance institutions. The purpose of the pilot of the study was to enable the researcher to improve on the reliability of the data collecting instrument and to familiarise with administration. According to Masibo (2005), pre-testing provides a check on the feasibility of the proposed procedure for coding data and shows up flows and ambiguities in the instrument of data collection. The test-retest technique of measuring reliability was used in the study. This involved administering the questionnaire to two managers twice with a time lapse of three days and then computing the correlation coefficient for the two test. On the other hand the content validity of the two instruments of data collection was assured by ensuring that each of the items in the questionnaire and interviewee schedule addresses specific content and objective of the study.

The instrument was given two MFI experts who assessed the concept which the instrument tried to measure. The end result was that the instrumental were appropriate in test of content validity. The validity and reliability of the tools for data collection were eventually ascertained and used to collect data from the sampled respondent.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION

#### 4.1 Introduction

This chapter presented a detailed discussion and analysis of findings of the study with particular reference to the responses received, finding of the study tables and figures that are useful to the study. The targeted population was 39 small and medium enterprises and 11 MFIs, but only 40 questionnaires out of 50 given out were returned. This represented 80% of the population hence the analysis was done using 40 questionnaires received from the respondents.

#### 4.2 Data presentation

**Table 4.1: Response Rate: SME and MFIs**

Category	Questionnaire	Questionnaire	Response Rate (%)
	Sent	Returned	
SMES	39	29	74
MFIS	11	11	100
Total	50	40	80

**Source: Primary data**

#### 4.2.1 Age Distribution among Respondents

Table 4.3 indicates that 35% and 28% off the respondents were between 26-45 years. This shows that most SMEs are established by young individuals who have cleared studies but due to high unemployment and up with small enterprises; the enterprises that

have survived for more than 5 years represented by 13%.

**Table 4.2: Age Distribution among Respondents**

<b>Age bracket</b>	<b>Frequency</b>	<b>Percentage</b>
Below 25 Years	10	24
26-35 Years	14	35
36-45 Years	11	28
Above 45	5	13
Total	40	100

#### **4.2.2 The Effect of MFIs on SMES**

The existence of MFIS services has contributed to the development of SMES. It was found that majority of them, 69% strongly agree, 17% agree while 7% remain neutral and 7% disagree. However, none of the respondents strongly disagree with the contribution of MFIs on their business.

**Table 4.3: The Effect of MFIs on SMES**

<b>Item</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	27	69%
Agree	7	17%
Neutral	3	7%
Disagree	3	7%
Strongly disagree	0	0%
Total	40	100%

#### **4.2.3 Stability and Growth**

The respondents were asked to rate the extent to which the respondents agree with the given statements in a five point Likert scale. The range was ‘strongly disagree (5)’ to ‘strongly agree (1)’. The scores of disagree have been taken to present a variable which had an impact to a strongly disagree (S.D) and disagree (D) (equivalent to mean score of



0 to 2.4 on the continuous Likert scale ;( $0 \leq S.D/D < 2.4$ ). The scores of ‘moderately agree’ have been taken to represent a variable that had an impact to a neutral (N) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq N < 3.4$ ). The score of agree have been taken to represent a variable which had an impact of strongly agree (SA) and agree (A) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq S.A/A < 5.0$ ). A standard deviation of  $> 1.5$  implies a significant difference on the impact of the variable among respondents.

Findings on stability and growth shows that respondents were satisfactory on the contribution of MFIs in fuelling growth of enterprise (mean=3.95) which confirms that the respondents agreed and also the respondents conform that enterprises have been stable and growing without MFIs contributions (mean=3.51) which the respondents moderately agreed.

**Table 4.4: Stability and Growth**

	<b>Std.</b>			
	<b>Mean</b>	<b>Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
MFIs has contributed in fuelling growth of my Enterprise	3.95	2.339	0.735	1.523
MFIs has contributed in fuelling stability of my Enterprise	3.51	0.263	-1.841	2.76

**4.2.4 Effect of Growth and Stability on MFIs**

The study sought to determine how growth and stability of enterprises has been affected by MFIs. The respondents indicated that growth and stability of enterprises has been

affected by MFIs. This is because MFIs are a central source of credit for the poor in many countries hence they create rules and regulations that control the SMEs growth and stability. MFIs controls the collection of repayment instalments by bank personnel and this is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. The finding according to Hossain, (1999), the provision of credit has increasingly been regarded as an important tool for raising the incomes of youths, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the youths to facilitate their taking advantage of the developing entrepreneurial activities.

#### **4.2.5 Credit Facilities**

The respondents were asked to rate the extent to which the respondents agree with the given statements in a five point Likert scale. The range was ‘strongly disagree (5)’ to ‘strongly agree (1)’. The scores of disagree have been taken to present a variable which had an impact to a strongly disagree (S.D) and disagree (D) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq S.D/D < 2.4$ ). The scores of ‘moderately agree’ have been taken to represent a variable that had an impact to a neutral (N) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq N < 3.4$ ). The score of agree have been taken to represent a variable which had an impact of strongly agree (SA) and agree (A) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq S.A/A < 5.0$ ). A standard deviation of  $> 1.5$  implies a significant difference on the impact of the variable among respondents.

Findings on credit facilities reveal that the MFIs credit facilities are available (mean=3.95), respondents moderately agreed that MFIs credit facilities are accessible (mean=3.52) and finally, the respondents agreed that other factors contributing to the availability and accessibility of MFIs (mean=3.61).

**Table 4.5 Credit Facilities**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
MFIs credit facilities are available	3.95	1.343	0.178	-1.401
Other factors contributing to the availability and accessibility of MFIs	3.61	1.03	-0.344	-0.422

#### **4.2.6 Other factors affecting accessibility and availability**

The study sought to determine other factors that affect the accessibility and availability of MFIs. The respondents indicated these factors as lack of credit, lack adequate physical capital, lack of asset collateral required and high interest rates.

The findings are in line with Ibru (2009) that among the factors that affect entrepreneurship development in a country is lack of credit. Entrepreneurs lack adequate physical capital such as credit and savings for business which force them into quest for micro-financial assistance. This is due to unemployment, low household and business

income, lack of asset collateral required by conventional banks (Lawal et al., 2009) and high interest rates, their inability to save, size of the firm, age of the firm and type of industry.

For instance, lack of asset collateral necessitated the need for group formation which provided insurance for loan as well as aid in loan monitoring and enforcement (Olomola, 2002). Therefore, since they do not have physical capital as collaterals demanded by conventional banks, they could use social capital demanded by micro-finance institutions. Again, in microfinance, interest rates are higher than the conventional banks so as to cover overhead costs such as personnel costs. However, such interest rates are charged on weekly returns; as such it becomes lower (Olomola, 2002), and beneficial to women entrepreneurs.

Acquisition of resources could also lead to opportunity for entrepreneurial activity. Appropriate use of acquired resources through good business strategy and organizational design could lead to business performance (Salman, 2009). Again, financial management theorists believe that funds could only be sourced to finance a predetermined project, business or contract). As such, micro-finance could only lead to business performance when there is the tendency to engage in new business or business expansion (Antoncic, 2006).

#### **4.2.7 Availability and accessibility of financial services**

The study sought to determine how the respondents would rate the availability and accessibility of financial services in a five point Likert scale. The range was ‘very little

(5) to 'very much (1)'. The scores of little have been taken to present a variable which had an impact to a very little (V.L) and little (L) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq V.L/L < 2.4$ ). The scores of 'moderately little' have been taken to represent a variable that had an impact of moderate (M) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq M < 3.4$ ). The score of much have been taken to represent a variable which had an impact of Very Much (VM) and much (M) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq VM/M < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

Findings on availability and accessibility of financial services reveal that the MFIs. Financial services are readily available (mean=3.96), and also the respondents moderately agreed that MFIs Financial services are readily accessible (mean=3.52).

**Table 4.6 Availability and accessibility of financial services**

	Std.			
	Mean	Deviation	Skewness	Kurtosis
MFIs Financial services are readily available	3.96	2.339	0.735	1.523
MFIs Financial services are readily accessible	3.52	0.263	-1.841	2.76

#### **4.2.8 Contribution of availability and accessibility to financial performance**

The study sought to determine the contribution of availability and accessibility to financial performance. The study established that availability and accessibility of MFIs

has greatly contributed to SMEs financial performance. Availability and accessibility of MFIs has contributed by making credit accessible to the SMEs. By making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased.

### **4.3 Borrowing rates**

The study sought to determine how the respondents would rate the given statement in a five point Likert scale. The range was 'very little (5)' to 'very much (1)'. The scores of little have been taken to present a variable which had an impact to a very little (V.L) and little (L) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq V.L/L < 2.4$ ). The scores of 'moderately little' have been taken to represent a variable that had an impact of moderate (M) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M < 3.4$ ). The score of much have been taken to represent a variable which had an impact of Very Much (VM) and much (M) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq VM/M < 5.0$ ). A standard deviation of  $> 1.5$  implies a significant difference on the impact of the variable among respondents.

From the findings on borrowing rates reveal that the respondents moderately felt that the lending rate determine from borrowing (mean=3.21), the respondents also indicated that the lending rates in MFIs are lower and competitive to a moderate extent (mean 3.37) and finally the respondents moderately agreed that the lending rates in MFIs are affordable (mean 3.82).

**Table 4.7 Borrowing rates**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
Lending rate deter me from borrowing	3.21	1.185	0.016	-1.151
Lending rates in MFIs are lower and competitive	3.37	1.298	-0.323	-1.004
Lending rates in MFIs are affordable	3.82	1.182	-0.077	-1.143

### **4.3.1 Contribution of borrowing rates**

The respondents were asked to rate the extent to which the respondents agreed with the given statements in a five point Likert scale. The range was ‘strongly disagree (5)’ to ‘strongly agree (1)’. The scores of disagree have been taken to present a variable which had an impact to a strongly disagree (S.D) and disagree (D) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;(  $0 \leq S.D/D < 2.4$ ). The scores of ‘moderately agree’ have been taken to represent a variable that had an impact to a neutral (N) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq N < 3.4$ ). The score of agree have been taken to represent a variable which had an impact of strongly agree (SA) and agree (A) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq S.A/A < 5.0$ ). A standard deviation of  $> 1.5$  implies a significant difference on the impact of the variable among respondents.

From the findings, the respondents agreed that borrowing rates affect financial performance of the enterprises (mean=3.57) and they also agreed that borrowing rates affect financial performance of the enterprises (mean=3.78).

**Table 4.8 Contribution of borrowing rates**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
Borrowing rates affect financial performance of the enterprises	3.57	0.788	-1.348	2.778
Borrowing rates affect financial performance of the enterprises	3.78	1.417	0.037	-1.452

The study further sought to determine how borrowing rates has contributed to their enterprises. The study findings established that the microfinance institutions offer credit below the market rates hence the SMEs are able to access loans and the registered SMEs are entitled to credit. The borrowing rates offered by MFIs to SMEs has contributed positively to the growth of their enterprise by making credit available and more accessible to the majority entrepreneurs who now can have equal opportunities to growth their enterprises.

#### **4.4 Small and Frequent Deposits**

The study sought to determine the extent to which the respondents agree with the following given statements in a five point Likert scale. The range was ‘strongly disagree (5)’ to ‘strongly agree (1)’. The scores of disagree have been taken to present a variable which had an impact to a strongly disagree (S.D) and disagree (D) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;(  $0 \leq S.D/D < 2.4$ ). The scores of ‘moderately agree’ have been taken to represent a variable that had an impact to a neutral



(N) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq N < 3.4$ ). The score of agree have been taken to represent a variable which had an impact of strongly agree (SA) and agree (A) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq S.A/A < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

From the findings on small and frequent deposits, the respondents indicated that they agreed that SME have Savings accounts with MFIs (mean=3.77) and also the respondents agreed that SME have Current accounts with MFIs (mean=3.62).

**Table 4.9: Small and Frequent Deposits**

	Mean	Std. Deviation	Skewness	Kurtosis
SME have Savings accounts with MFIs	3.77	1.137	0.132	-1.126
SME have Current accounts with MFIs	3.62	1.229	0.368	-0.98

#### **4.4.1 Extent of rating by respondents**

The respondents were required to rate the given statements in a five point Likert scale. The range was ‘very little (5)’ to ‘very much (1)’. The scores of little have been taken to present a variable which had an impact to a very little (V.L) and little (L) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq V.L/L < 2.4$ ). The scores of ‘moderately little’ have been taken to represent a variable that had an impact of moderate (M) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M < 3.4$ ). The score of much have been taken to represent a variable which had an

impact of Very Much (VM) and much (M) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq VM/M < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

From the findings the respondents indicated that SME have Savings accounts with MFIs to a much extent (mean=3.83) and also they indicated that SME have Current accounts with MFIs to a much (mean=3.76) because of the daily transactions of their enterprises.

**Table 4.10: Extent of rating by respondents**

	Mean	Std. Deviation	Skewness	Kurtosis
SME have Savings accounts with MFIs	3.83	1.384	0.149	-1.321
SME have Current accounts with MFIs	3.76	1.037	0.49	-0.809

#### **4.4.2 Enterprise extent of borrowing**

The study sought to determine the extent to which the enterprises are able to borrow against the deposits and their ability to borrow without any problem in a five point Likert scale. The range was ‘very little (5)’ to ‘very much (1)’. The scores of little have been taken to present a variable which had an impact to a very little (V.L) and little (L) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq V.L/L < 2.4$ )). The scores of ‘moderately little’ have been taken to represent a variable that had an impact of moderate (M) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M < 3.4$ )). The score of much have been taken to represent a variable which had an impact of Very Much (VM) and much (M) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq VM/M < 5.0$ ). A standard deviation of  $>1.5$  implies a

significant difference on the impact of the variable among respondents.

From the findings the study established that the respondents indicated that enterprises are able to borrow against the deposits to little extent (mean=2.27) this is because the enterprises borrow against business equity not deposits and lastly the respondents indicated that enterprises have the ability to borrow without any problem to a very much extent (mean=4.78). As long as the enterprises meet the requirements for borrowing such as registration of the enterprise, they are able to borrow without any problems.

**Table 4.11: Enterprise extent of borrowing**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
Enterprises are able to borrow against the deposits	2.27	0.788	-1.348	2.778
Enterprises have the ability to borrow without any problem	4.78	1.417	0.037	-1.452

#### **4.4.3 Extent of SMEs performance**

The study sought to determine the extent to which the respondents rate the given statements in a five point Likert scale. The range was ‘very little (5)’ to ‘very much (1)’. The scores of little have been taken to present a variable which had an impact to a very little (V.L) and little (L) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( $0 \leq V.L/L < 2.4$ ). The scores of ‘moderately little’ have been taken to represent a variable that had an impact of moderate (M) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M < 3.4$ ). The score of much have been taken to

represent a variable which had an impact of Very Much (VM) and much (M) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq VM/M < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

The findings show that the respondents indicated that SMEs performance in Narok is poor to a moderate extent (mean=2.95) and also the respondents indicated that MFIs has Enabled Financed the SMEs performance to a very much extent (mean=4.87). This has been contributed by the fact that MFIs have enabled the availability and accessibility of finances to the SMEs hence subsidising the performance of the SMEs in the area.

**Table 4.12 Extent of SMEs performance**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
SMEs performance in Narok is poor	2.95	1.343	0.178	-1.401
MFIs has Enabled Financed the SMEs performance	4.87	1.414	0.343	-1.226

#### **4.4.4 Slow Growth of enterprises**

The study sought to determine what has contributed to the slow growth of enterprises within Narok. The findings established that in Narok County majority of the SMEs are non-registered or lack proper documentation to acquire the enterprises in Narok credit. The majority of the enterprises fall short in the requirements needed to attain credit hence this contributes to the slow growth of SMEs. The markets and products that are offered to

the residents in Narok County are not welcomed because the residence prefers cheaper products that are readily available in the market. The culture of the residence of Narok hinders the fast growth of enterprises as the residence prefers to deposit their finances at home because they lack the knowledge of depositing, savings and banking.

SMEs performance in Narok County is a major source of entrepreneurial skills, innovation and employment. The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in the area. SMEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006).

#### **4.5 Correlation Statistics**

Correlation statistics is a method of assessing the relationship between variables/factors. To be precise, it measures the extent of association between the ordering of two random variables although; a significant correlation does not necessarily indicate causality but rather a *common linkage* in a sequence of events. Thus, the study analysed the relationships that are inherent among the independent and dependent variables as well as among the independent variables. The results regarding this were summarized and presented in table 4.14.

Pearson Correlations results in table 4.14 showed that tax knowledge and education was positively and significantly correlated to tax compliance ( $r=0.675$ ,  $\rho<0.05$ ). Thus tax

knowledge and education had 67.5% positive relationship with tax compliance. Tax fines and penalties was the second component to be positively related with tax compliance ( $r = 0.710$ ,  $\rho < 0.05$ ) an indication that tax fines and penalties had 71% significant positive relationship with tax compliance. Perceived opportunity for tax evasion was significantly associated with tax compliance as shown by ( $r = -0.269$ ,  $\rho < 0.05$ ) implying that perceived opportunity for tax evasion had a 26.9% negative relationship with tax compliance.

Finally, tax compliance cost was significantly positively correlated to tax compliance ( $r = -0.613$ ,  $\rho < 0.05$ ). Therefore, Tax compliance cost had 61.3% negative relationship with tax compliance.

**Table 4.13: Correlation Statistics**

	<b>SMEs access credit</b>	<b>Leading to rates</b>	<b>Loan Size</b>	<b>SMEs savings</b>	<b>SMEs performance</b>
SMEs access to credit	1				
Lending rates	-.613**	1			
Loan Size	.675**	.664**	1		
SMEs savings	.710**	.488**	.513**	1	
SMEs performance	-.269**	.199**	.262**	.239**	1
	0	0.001	0	0	

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

#### 4.6 Regression Analysis

A Multiple linear regression model was used to measure the performance SMEs in the study. The prediction was carried out basing on the effect of the four independent factors: SMEs access to credit; Leading rates; Loan Size and SMEs saving. The study thus came up with a model summary, the ANOVA for the effect of financial performance and the regression model as presented in table 4.15, 4.16 and 4.17.

From table 4.15, the findings indicated that the model correlation coefficient was 0.804 which indicated that the model predicted over 80% of the change in the independent variable. This relationship was significant considering the coefficient of determination value of 0.647. The model was adequate in this case as indicated by the Durbin-Watson statistic value of 1.929 which is in the range of 1 to 2.

**Table 4.14 Model summary**

		<b>Adjusted R</b>	<b>Std. Error of the</b>	<b>Durbin-</b>
<b>R</b>	<b>R Square</b>	<b>Square</b>	<b>Estimate</b>	<b>Watson</b>
<b>0.804</b>	<b>0.647</b>	<b>0.638</b>	<b>0.560</b>	<b>1.</b>

**Source: (Survey Data, 2014)**

#### **Analysis of Variance (ANOVA)**

The study used ANOVA statistics to establish the significance of the relationship between SMEs and financial performance. The ANOVA statistics presented in Table 4.16 was used to present the regression model significance. An F-significance value of

$p < 0.000$  was established which is less than  $p = 0.05$  at 5% level of significance hence the model is significant for the regression analysis.

**Table 4.15 Analysis of Variance (ANOVA)**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
	Regression	110.450	5	20.075	75.739	.001
1	Residual	42.659	35	.573		
	Total	152.109	40			

The ANOVA model in table 4.16 showed that the regression model was also a dequate. The effect size of the regression model was shown to be over 75 that contributed by the residual mean sum of squares. The F-ratio was 75.739 at 4 degrees of freedom which are the four factors. This represented the effect size of the regression model and was significant with a p-value of 0.000 which is less than 0.05 hence the model is fit for estimation.



#### 4.7 Coefficients Model

**Table 4.16 Coefficients model**

**Unstandardized**

**Coefficients                      Standardized Coefficients**

**Collinearity**

**Statistics**

	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>T</b>	<b>Sig.</b>	<b>Tolerance</b>	<b>VIF</b>
(Constant)	0.391	0.274		-1.428	0.155		
SMEs access to credit	0.602	0.046	-0.317	-6.531	0.000	0.725	1.379
Lending rates	-0.386	0.059	0.331	6.557	0.000	0.669	1.495
Loan size	0.169	0.072	0.111	2.334	0.021	0.759	1.317
SMEs savings	0.208	0.057	-0.194	-3.646	0.000	0.600	1.666

Dependent Variable: SMEs performance

**Source: (Survey Data, 2014)**

All the explanatory variables are significant at 5% level of significance in explaining the variation in financial performance. Going by the rule of the thumb, at level of significance of 5% the P-values are less than 0.05 hence the explanatory variables are important in explaining the changes in financial performance. The regression result indicates that holding other factors constant, a unit increase in SMEs access to credit leads to 0.602 increase in financial performance; a unit increase in lending rates leads to -0.386 decrease in financial performance; a unit increase in loan size leads to 0.169 increase in financial performance and a unit increase in SMEs savings leads to 0.208 increase in financial performance.

#### **4.7.1 Analysis and Interpretation of Findings**

The average mean ratio of SME's to total loans and advances is 0.391 when the explanatory variables are held constant. The regression result obtained in table 4.17 indicates that unit increase in SMEs access to credit leads to a 0.602 increase in performance of SMEs. The finding is in agreement with Rosenberg (1999) who noted that Micro Finance Institutions (MFIs) are increasingly a central source of credit for the poor in many countries. Weekly collection of repayment instalments by bank personnel is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. According to Natarajan (2004), this method of providing small credits to the poor is most used by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders.

The finding shows a significant negative relationship between the lending rates on loans and the performance of SMEs. This finding correlate to Besley and Coate (1995) that despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members.

A unit increase in loan size increases the performance of SMEs by 0.169 units. The result is in line with Bowen and Makarius (2009), there has been a rapid growth in the Microfinance sector over the years in Kenya. However despite this growth in

Microfinance shows that over 50% SMEs continues to have a deteriorating performance with three in every five SMEs falling within the months of establishment.

A unit increase in SMEs savings leads to 0.208 increases in the performance of SMEs. An increase in SMEs savings strengthens loan uptake capacity of the borrower therefore SMEs growth in performance. The result is in line with Juma, Torori, and Kirirna (1993) who depicts that it is important to save as this leads to accumulation particularly important for entrepreneurs with cyclical or uneven income patterns. According to Zeller (1995) shows that liquid savings are better at smoothing household consumption than are other savings techniques. Savings can be withdrawn to cover healthcare and used in other times of emergency. Use of savings accounts is an important source of growth of the household economic portfolio.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

#### 5.1 Summary of findings

The growth and stability of enterprises has been affected by MFIs. This is because MFIs are a central source of credit for the poor in many countries hence they create rules and regulations that control the SMEs growth and stability. MFIs controls the collection of repayment instalments by bank personnel and this is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. The factors affecting the accessibility and availability of MFIs include lack of credit, lack adequate physical capital, lack of asset collateral required and high interest rates.

The availability and accessibility of MFIs has greatly contributed to SMEs financial performance. Availability and accessibility of MFIs has contributed by making credit accessible to the SMEs. By making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased. The microfinance institutions offer credit below the market rates hence the SMEs is able to access loans and the registered SMEs are entitled to credit. The borrowing rates offered by MFIs to SMEs has contributed positively to the growth of their enterprise by making credit available and more accessible to the majority entrepreneurs who now can have equal opportunities to growth their enterprises.

SMEs are non-registered or lack proper documentation to acquire the enterprises in Narok credit. The enterprises fall short in the requirements needed to attain credit hence this contributes to the slow growth of SMEs. The markets and products that are offered to the residents in Narok County are not welcomed because the residence prefers cheaper products that are readily available in the market. The culture of the residence of Narok hinders the fast growth of enterprises as the residence prefers to deposit their finances at home because they lack the knowledge of depositing, savings and banking.

## **5.2 Conclusion**

The study made conclusions based on the study findings that the existence of MFIS services has contributed to the development of SMEs. This is because MFIs are a central source of credit for the poor in many parts of the country hence they create rules and regulations that control the SMEs growth and stability. MFIs controls the collection of repayment instalments by bank personnel and this is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. The provision of credit has increasingly been regarded as an important tool for raising the incomes of youths, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the youths to facilitate their taking advantage of the developing entrepreneurial activities. The factors affecting the accessibility and availability of MFIs include lack of credit, lack adequate physical capital, lack of asset collateral required and high interest rates. Entrepreneurs lack adequate physical capital

such as credit and savings for business which force them into quest for micro-financial assistance.

This is due to unemployment, low household and business income, lack of asset collateral required by conventional banks. Availability and accessibility of MFIs has greatly contributed to SMEs financial performance. Availability and accessibility of MFIs has contributed by making credit accessible to the SMEs. By making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased. The enterprises fall short in the requirements needed to attain credit hence this contributes to the slow growth of SMEs. The markets and products that are offered to the residents in Narok County are not welcomed because the residence prefers cheaper products that are readily available in the market. Making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased. SMEs performance in Narok County is a major source of entrepreneurial skills, innovation and employment. The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in the area.

### **5.3 Recommendation**

The study made recommendations based on the study findings. Basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use these funds in growth of their enterprises. The MFIs should addresses capital

investment decisions, general business management and risk management in Narok County. Policies should be placed to regulate the growth of SMEs in the region and provide support for the starting entrepreneur. MFIs should develop practical strategies and approaches in implementing and supporting the bold ambition of reducing poverty in Narok County. The microfinance services in its entirety should report effect on savings, income and investments alongside non-financial study specifically investigating these aspects. Government should also consider partnering with MFIs to enhance this training or even establish institutions for strictly training youths in entrepreneurial skills. The MFIS should train the borrowers on entrepreneurial skills so as to enhance their competence. The MFIs should also consider the performance of the business before allocating money to the business owners. Financial performance measures should focus attention on what makes, identifies and communicates the drives of success, support organization learning and provides a basis for assessment and rewards. MFIs should be made available and accessible to the community at large to contribute greatly to SMEs financial performance. Microfinance institutions should offer credit below the market rates hence the SMEs will be able to access loans and the registered SMEs should be entitled to credit.

### **5.5 Limitation of the Study**

The research met with various challenges when conducting the research that included the fact that the firm ordinarily do not want to give information due to client confidentiality. There will be likelihood of not accessing the private information of the MFIs in the study. Published data may only show the financial performances of the MFIs. Lack of

reliability on the data collected. Financial statements may sometimes be made with collusion between the management and the auditors. There are many SMEs within Narok County and hence stratified sampling method will be used which may result in biasness and the results may not be generalized to MFIs in future.

In addition, some of the interviewees would not find the subject to be of interest. Additionally, some respondents would not want to give the information as they considered it of competitive importance. The respondents being normally very busy people may not have found a lot of time to be interviewed. Since the research was conducted via questionnaires, a large amount of time was needed to collect information from the respondents.

Time limitation made it impractical to include more respondents in the study. This study was also limited by other factors in that some respondents may have been biased or dishonest in their answers. More respondents would have been essential to increase the representation of the firm team in this study and allowed for better check of consistency of the information given. However, the researcher did look for contradictions in the information given and no inconsistency were found.

## **5.6 Suggestion for Further Studies**

In future, researchers should replicate this study to cover the whole country. A study on the provision of micro finance services to the youth as an innovative and sustainable approach to youth financial and micro enterprise activities empowerment leading to generation of income so as to improve their livelihoods and their contribution to economic growth should be considered for further research.



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**Appendix I: QUESTIONNAIRE**

The researcher is carrying out a study to investigate to the effects of MFIs to effective financial performances of the selected Enterprises in Narok Town, Kenya. Please answer all the questions as objectively and truthfully as possible. Do not indicate your name in the questionnaire. Using a tick, indicate your responses in the boxes provided.

**SECTION A. RESPONDENTS PROFILE**

1. Gender

Male [ ]

Female [ ]

2. Age (Years)

18-25 [ ]

26-35 [ ]

36-45 [ ]

Over 45 [ ]

3. Education

Primary [ ]

Secondary [ ]

College [ ]

University [ ]

Others

Specify.....

4. What is your business experience

1-5 years [ ]

5-10 years [ ]

10-15 years [ ]

Over 15 years [ ]

**SECTION B. Stability and Growth**

5. To what extent do you agree with the following statement;

1.) Strongly Agree 2.) Agree 3.) Neutral 4.) Disagree 5.) Strongly disagree

Statement	1	2	3	4	5
MFIs has contributed in fuelling growth of my Enterprise					
MFIs has contributed in fuelling stability of my Enterprise					
My Enterprises has been stable and growing without MFIs contributions					

6. In your own words how do you think growth and stability of enterprises has been affected by MFIs

.....

**SECTION C. Credit Facilities**

7. To what extent do you agree with the following statement; Please comment.

1) Strongly Agree 2.) Agree 3.) Neutral 4.) Disagree 5.) Strongly disagree

Statement	1	2	3	4	5
MFIs credit facilities are available					
MFIs credit facilities are accessible					
Other factors contributing to the availability and accessibility of MFIs					

8. If your answer to 7. Above was other factors affecting accessibility and availability, please list these factors

.....

9. How would you rate the availability and accessibility of Financial services from?

please comment

1). Very much 2.) much 3.) moderate 4.) little 5.) Very little

Statement	1	2	3	4	5
MFIs Financial services are readily available					
MFIs Financial services are readily accessible					

10. Please comment how you think Availability and accessibility has contributed to Financial performance.....

**SECTION D. Borrowing rates**

11. How would you rate the following statements?

1)Very much 2.) much 3.) moderate 4.) little 5.) Very little

Statement	1	2	3	4	5
Lending rate deter me from borrowing					
lending rates in MFIs are lower and competitive					
Lending rates in MFIs are affordable					

12. To what extent would you agree with the following statement. Please comment.

1).Strongly Agree 2.) Agree 3.) Neutral 4.) Disagree 5.) Strongly disagree

Statement	1	2	3	4	5
Borrowing rates affect financial performance of the enterprises					
Borrowing rates result to high default rate					

13. Please comment on how borrowing rates has contributed to your enterprises

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**SECTION E. Small and frequent deposits**

14. To what extent would you agree with the following statement.

1. Strongly Agree 2.) Agree 3.) Neutral 4.) Disagree 5.) Strongly disagree

Statement	1	2	3	4	5
MFIs has enabled Enterprises to open accounts					
MFIs has enabled Enterprises to deposits savings to accounts					

15. How would you rate the following statements?

1.) Very much 2.) much 3.) moderate 4.) little 5.) Very little

Statement	1	2	3	4	5
SME have Savings accounts with MFIs					
SME have Current accounts with MFIs					

16. How would you rate the following statements?

1. Very much 2.) much 3.) moderate 4.) little 5.) Very little

Statement	1	2	3	4	5
Enterprises are able to borrow against the deposits					
Enterprises have the ability to borrow without any problem					

17. How would you rate the following statements?

1. Very much 2.) much 3.) moderate 4.) little 5.) Very little

Statement	1	2	3	4	5
SMEs performance in Narok is poor					
MFIs has Enabled Financed the SMEs performance					

17. Please comment on your own view what has contributed to slow growth of enterprises within Narok

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18. Kindly comment on your view the SMEs Performances in Narok for the past 2 years

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