EFFECT OF ACCESS TO MICRO FINANCING ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES IN GIKOMBA MARKET, NAIROBI COUNTY

By

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DECLARATION

This research project is my original work and has not been presented in any other University.

Signed…………………………………… Date …………………………………..

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D61/75457/2012

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

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God bless you.

DEDICATION

I wish to dedicate this research project to my parents, Mr. and Mrs. Nelson Kinyua. Your inspiration, encouragement and support in diverse forms will always be remembered and cherished. I wish to also dedicate this to my lovely daughter Sydney and loving husband Charles who makes me strive everyday to be the best .You are my strength and the reason for my hard work. Lastly, I wish to dedicate this project to all Kenyans striving to gain financial success through small and medium sized enterprises and knowledge on access of finances. God bless you all.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ABE	Australian Business Excellence
CGAP	Consultative Group to Assist the Poor
FFIS	Formal Financial Institutions
GDP	Gross Domestic Product
GOK	Government of Kenya
IFC	International Finance Corporation
KNBS	Kenya National Bureau of Statistics
MFIS	Micro Finance Institutions
MSMEs	Micro Small Medium Sized Enterprises
PM	Performance Measurement
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investments
SMEP	Small and Micro-Enterprise Programme
SMEs	Small and Medium sized Enterprises
TQM	Total Quality Management
USA	United States of America
WEF	World Economic Forum

ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in the socio-economic development of any country. They provide an appropriate channel for the achievement of national macroeconomic objective in terms of employment generation at low investment cost and enhancement of apprenticeship training. The objective of the study was to determine the effect of access to micro financing on financial performance of small medium enterprises in Gikomba Market, Nairobi County. The study adopted descriptive research design. The study used a sample of 125 respondents out of whom 75 responded. Data analysis was done using SPSS version 20.0. The study established that the entrepreneurs in the study area accessed different amounts of loan. The study also established that accessibility to microfinance affected the performance of SMEs to a great extent. On the influence of savings and deposits to financial performance of SMEs, the study established that savings allowed the entrepreneurs a chance to borrow from the banks and also measured their revenue generation capacity. The study also established that entrepreneurial development played a key role in the performance of SMEs. The study concludes that the accessibility of credit from credit facilities affects the financial performance of the SMEs to a very great extent. The study concludes that the some of the SMEs traders at Gikomba market have been able to make savings while others have not through their respective MFIs. The study also concludes that the training has improved the management skills of the entrepreneurs in Gikomba in financial management, record keeping and business management. This study therefore recommends that the management of MFIs revise their lending policies and requirements so as to ensure that most of the traders can be able to access credit more easily. The study also recommends that the MFIs use that traders savings as part of collateral since most may not have large tracts of land or the physical collateral needed. The study also recommends that the training on investment monitoring be offered more hours since it was established that the traders had not improved their skills in the area.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMEs) play an important role in the socio-economic development of any country (Baumol, 2008). They provide an appropriate channel for the achievement of national macroeconomic objective in terms of employment generation at low investment cost and enhancement of apprenticeship training (Beck, Demirguc-Kunt, Laeven and Levine, 2008). SME contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low income households in an economy especially for developing countries (Beck, Demirguc-Kunt & Levine, 2005). Availing financial services to SMEs plays a key role in determining how they conduct their businesses as they need a range of enabling and sustaining financial services in order to enable them effectively exploit abundant resources in their field of specialization in order to realize their full potential.

It is generally recognized that SMEs face unique challenges in their operations which affect their growth and profitability hence, diminish their ability to contribute effectively to sustainable development. According to the Economic Survey (Kenya National Bureau of Statistics, 2013), the sector comprises of about 75 % of all businesses, employs 4.6 million people (30%) and accounts for 87% of all new jobs and contributes 18.4 % of the GDP. Starting and operating a small business includes a possibility of success as well as failure. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, Petty, Moore & Palich, 2006). Lack of credit facilities has also been identified as one of the most serious constraints facing SMEs and hindering their development (Tomecko and Dondo, 1992). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs in Kenya (Bokea, Dondo & Mutiso, 1999).

SMEs have special features as to compare with the larger organizations. Medium and Small Enterprises (MSEs) must consider the motivations, constraints and uncertainties facing smaller firms and recognize that these factors differ from those facing larger firms. According to Westhead and Storey (1996), the characteristics which distinguishes small organizations form larger ones other than size itself is that of uncertainty. For small organization, external uncertainty has affected the most especially when it comes to accessing financial services because of their limited collateral and high level of uncertainty.

1.1.1 Credit Facilities to Small and Medium Enterprises

Credit facilities are defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date (Abiola, 2011). Small and Medium Enterprises are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because these SMEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with them (Quaye, 2011). Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to assess accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment. SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises.

The Microfinance industry has become a major backbone in the sustenance and survival of SMEs. Microfinance Institutions (MFIs), as part of their core business, provide credit to SMEs (Abiola, 2011). In addition to these financial services, MFIs also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). Financial services provided to SMEs include financial products and services such as savings, credit, insurance, credit cards, and payment systems. According to Ogujiuba Ohuche & Adenuga (2004) the predominant credit facility available to small and medium scale business in Nigeria is bank overdraft, and short-term loans (asset based loans).

1.1.2 Financial Performance of the Firm

Financial performance is a measure of how well an organization can use assets from its primary mode of business and generate revenues (Greenwood & Jovanovic, 1990). Financial Performance Ratios is used to measure the financial performance of a business. A financial ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals. Some of the important financial ratios which a firm would like to analyze include: liquidity ratio, profitability ratios, and financial leverage ratios among others. It is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Jayawardhera & Foley, 2000).

Profit is the ultimate goal of firm. Profitability which is the ultimate goal of a firm is measured using a variety of ratios including: Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy & Sree, 2003). ROA is a major ratio that indicates the profitability of an organization. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of an organization's management to generate income by utilizing company assets at their disposal. ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment.

1.1.3 Credit Facilities and Financial Performance

According to the findings of a study by Joeveer (2006), bank loans have a significant positive effect on most performance indicators of Small and medium sized enterprises (SMEs) in the transition economies. Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (Asiama, 2007). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries.

Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs) (World Bank 1994). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

1.1.4 Small and Medium Sized Enterprises in Kenya

The Kenyan Government, aware of the role Small and Medium Sized Enterprises (SMEs) play in the economy, has taken steps to develop a legal and regulatory framework aimed at guiding and accelerating the growth of this sector. Due to Kenya's per capita income structure, most businesses would fall into the SME strata and as such any attempts by the Government to grow the economy would logically include development and sustenance of the SME sector. The official policy framework of SMEs in Kenya is contained in the Sessional Paper No 2 of 2005: Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction ("Sessional Paper No. 2 of 2005"). This policy paper was intended to form the basis for enacting the SME Act to institutionalize SME Policy in Kenya. The new SME Act would give direction to among others, key issues such as: the legal and regulatory environment, markets and marketing, business linkages, the tax regime, skills and technology and financial services. Indeed the Micro and Small Enterprises Bill 2011enacted into law in the year 2012 was developed upon this Policy framework (GOK, 2013).

In Kenya, SMEs have continued to face challenges related to accessing credit. Commercial banks are still bargaining with the issue of collateral (GOK, 2013). Due to limited land ownership status in Kenya (Property Rights in Kenya), entrepreneurs are unable to provide the necessary collateral needed for loan requests. According to Kenya's blue print and strategy for development known as Vision 2030 that aims towards making Kenya a newly-industrializing middle-income country capable of providing a high quality of life for all its citizens by the year 2030; Kenya's competitive advantage lies in agro-industrial exports. For superior performance of the manufacturing sector, one strategy includes strengthening SMEs to become the key industries of tomorrow. This, according to Kenya's Vision 2030, can be accomplished by improving their (SME) productivity and innovation. Vision 2030 therefore recommends a need to boost science, technology and innovation in the sector by increasing investment in research and development. Vision 2030 sees one key strategy to the development of SMEs as being the development of SME Parks in Kenya. In this regard, the government needs to establish at least five (5) SME Industrial parks (GOK, 2013).

1.2 Research Problem

SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises. The Microfinance industry has become a major backbone in the sustenance and survival of SMEs through the provision of credit. SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. They therefore cannot fund their expansions and take on value adding projects as they would wish to hence may not have avenues to improve their performance if no financing is availed.

A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs) (World Bank 1994). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries.

Several scholars have studied the relationship between the effects of micro financing on performance of SMEs. For instance, Jõeveer, Pissarides and Svejnar (2006) examined bank lending and performance of micro, small and medium sized enterprises (MSMEs) using evidence from Bulgaria, Georgia, Russia and Ukraine and established that the effect of loans on the performance indicators varies somewhat across countries. Idowu (2012) examined the impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria and established positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage. Akisimire 2010) examined microfinance credit terms and performance of SMEs in Uganda using a case study of SMEs in Mbarara Municipality. Findings revealed that there exists a significant and positive relationship between credit terms and SME performance.

In Kenya, Langat (2009) effect of credit on household welfare using the case of "village bank" model in Bomet District, Kenya. The study established that household income of credit participants was also higher than that of the non-participants. Nabintu (2013) examined factors affecting the performance of SME traders at City Park Hawkers Market in Nairobi County, Kenya and concluded that access to business information services affected the performance of the business to a great extent. Mathenge (2011) studied the effect of micro finance institutions services on the financial performance of micro and small enterprises in India Division and established that accessibility and repayment of Loans affects financial performance of MSEs positively.

From the above presentations, limited studies if any have focused on the effect of access to micro financing on financial performance of SMEs in Gikomba market, Nairobi County. This study therefore sought to fill this research gap by answering one research question: What is the effect of access to micro financing on financial performance of SMEs in Gikomba Market Nairobi County?

1.3 Objectives of the Study

The objective of the study was to determine the effect of access to micro financing on financial performance of small medium enterprises in Gikomba Market, Nairobi County.

1.4 Value of the Study

This study would be valuable to several stakeholders. First, it would be valuable to the Government of Kenya in policy formulation especially on the regulation of SMEs and Microfinance institutions. The findings from this study would act as a guide to future policy formulation processes.

The findings of this study would also be valuable to entrepreneurs in SMEs as it would provide useful information on the effect of micro financing on performance of SMEs in Gikomba Market, Nairobi County. This would help them to take necessary measures to ensure their qualifications for micro finance loans in order to grow their businesses. By making necessary arrangements to improve their chances of accessing microfinance, they would be able to take on more projects hence improve their financial performance.

The findings of this study would also be valuable to future researchers and academicians. This study would provide literature for the future scholars. This study suggested areas for further studies where future knowledge can be expounded on and at the same time act as a reference material.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on the effect of micro financing on performance of SMEs in Nairobi County. Specifically, the chapter addresses the theoretical review guiding the study, empirical literature and conclusion.

2.2 Theoretical Review

This section reviews theories that will guide the study. It consists of the theories governing the performance of SMEs. In particular, the section looks at the financial intermediation theory which holds that for a business to make returns, it has to obey the modern economics. It also reviews information asymmetry that holds that increased external market forces results into Market Power.

2.2.1 Financial Intermediation Theory

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. Bisignano (1992) identified that financial intermediaries can be distinguished by four criteria. First, their main categories of liabilities or deposits are specified for a fixed sum which is not related to the performance of a portfolio. Second, the deposits are typically short-term and of a much shorter term than their assets. Third, a high proportion of their liabilities are chequeable which can be withdrawn on demand and fourthly, their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units.

According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a ‘perfect’ market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous markets are characterized by informational differences between buyers and sellers. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than do lenders. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Leland and Pyle, 1977). Moral hazard hampers the transfer of information between market participants, which is an important factor for projects of good quality to be financed.

2.2.2 Information Asymmetry Theory

Asymmetries can be of an ex ante nature, generating adverse selection, they can be interim, generating moral hazard, and can be of an ex post nature, resulting in auditing or costly state verification and enforcement Healy and Palepu (2001). The informational asymmetries generate market imperfections like deviations from the neoclassical framework. Many of these imperfections lead to specific forms of transaction costs. SMEs operate in an environment characterized by high level of information asymmetry. For example, According to Healy and Palepu (2001), frictions that relate more to investors' information sets, numerous authors have stressed the role of asymmetric information as an alternative rationalization for the importance the effects of micro financing on the financial performance of SMEs.

According to Healy and Palepu (2001), one of the earliest papers, Leland and Pyle (1977), suggests that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. Diamond (1984) has argued that organizations overcome asymmetric information problems by acting as "delegated monitors." Microfinance overcome information asymmetry challenges by devising several products and pulling of risks especially where they lend to groups.

2.3 Empirical Review

Several scholars and researchers have reviewed the concept of performance of SMEs. Brau and Woller (2004) review over 350 articles and studies on microfinance institutions (MFIs) and their impact on both economic growth and society. The review includes a section on sustainability of MFIs where they site many studies concluding that institutional sustainability is a necessary goal as subsidized loan funds generally are more fragile and less focused. Just as Yunus knows that these subsidies distort the incentives in the microfinance institution, others have further argued that subsidies undercut the efficiency and the scale of operations. Abrams and von Stauffenberg (2007) conclude that an increase in international support of microfinance by development institutions is “crowding-out” private investment. Development agencies are supporting the largest and most successful MFIs, increasing their scale, and discouraging support of these institutions that should be the primary market for private investors.

Lin (2007) did an empirical study of SMEs in Taiwan. The study attempted to probe within a multi-dimensional perspective the nature and type of daily innovation practices of small- and medium-sized enterprises (SMEs) located in Taiwan. The relationship between innovation and organizational performance will also be explored. Lin collected through a telephone survey from 2000 Directory of manufacturing and service Industries in the northern Part of Taiwan, companies with a total employee number less than 200 (the definition of an SME in Taiwan) were considered. After finding out that that over eighty percent of the companies conducted some sort of innovation on its workers, it was concluded that creating a successful innovation platform to serve as a base for non-technology-related innovations could prove to be the most critical catalyst to capitalize on innovation efforts.

Strong (2008) did a study on entrepreneurial solutions to poverty alleviation concluded that although microfinance has become extremely popular as approach alleviation, there are still various controversies associated with it. For instance, he argued that microfinance is primarily used for debt and consumption rather than real investment in revenue-generating business. In the same effect, Copestake (2002) argues that microfinance has a polarizing effect as there is discrimination in favor of richer clients, who benefit from better access to credit, and exclusion of poorer people. He adds that if one of the aims of microfinance is to assist the "Poorest of the Poorest" the microfinance is not always the most appropriate intervention.

Todd (2007) studied internationalization of SMEs in India. The study sought to determine determinants influencing the internationalization of small and medium-sized enterprises (SMEs) in India. It evaluated the business environment and, then, examined the importance of developing and promoting entrepreneurship to allow SMEs in India to develop a competitive position in the international marketplace. The study proposed that the primary method for fostering or promoting the growth of entrepreneurship was through the utilization of technology and that special attention be given to the gaps in infrastructure that could enable a more efficient use of resources and the impact of entrepreneurship on the economic growth of the SMEs.

Akisimire (2010) did a study on microfinance credit terms and performance of SMEs in Uganda. The study sought to establish the relationship between MFI credit terms and performance of SMEs in Mbarara Municipality. The study was carried out to establish whether MFIs provided favorable credit terms to SMEs in Uganda and the relationship between credit terms, liquidity levels and SME performance. He performed a cross sectional and correlation quantitative design analysis on the population and found out that terms from the MFIs to SMEs were not favourable. It was also established that there existed a significant and positive relationship between credit terms and SME performance. Results also revealed a significant relationship between liquidity levels and SME performance. And positive and significant relationship between MFI-SME relationships and SME performance was established

Kwaku and Singh (1998) examined the customer orientation - performance link in small- and medium-sized businesses and tested for the possible effects of innovation orientation, market dynamism and competitive intensity on the degree of customer orientation among those firms. Specific performance measures such as new product success, sales growth and return on investment (ROI) were used to complete the study. Based on constructs of these measures, a research scale was developed for the study and data were collected. The results showed a positive effect of customer orientation on SME performance. There were also findings on the varied influences of innovation orientation and the competitive environment on the levels of SME customer orientation.

Kiiru (2007) studied the impact of microfinance on rural poor household's income and vulnerability to poverty. Kiiru found significant (though weak) positive impact of microfinance on household income. The study argues that there is a role of microfinance on the improvement of household incomes; it reasserts that providing affordable financial services to the rural population still remains to be an important component of development strategy. Secondly; study recognizes that as long as there is still a role for entrepreneurship in economic growth, and that microfinance could be used as a source to finance small entrepreneurships then once again the case for microfinance in poverty reduction still stands. On the other hand the study emphasized that there is need to come up with innovative microfinance institutions that are supportive of their own role in assets accumulation and wealth creation for their clients. This will involve innovative targeting of potential clients, as well as streamlined microfinance conditionality to protect their clients.

Rahman (2001) did a comparative study of Total Quality Management (TQM) practice and organizational performance of SMEs with and without ISO 9000 certification. This study aimed at providing empirical evidence on the differences in TQM implementation and organizational performance of SMEs in Western Australia, with and without ISO 9000 certification. Rahman used questionnaire and followed the Australian Business Excellence (ABE) framework to collect and analyze data. The results showed that there was no significant difference between SMEs with and without ISO 9000 certification with respect to TQM implementation and organizational performance.

Nabintu (2013) studied the factors affecting the performance of SMEs traders at City Park Hawkers Market in Nairobi County, Kenya. The study sought to establish how accessibility to business information services affects the performance of SMEs traders at City Park Hawkers Market in Nairobi County, examining how access to finance affect performance of SMEs traders at city park hawkers market in Nairobi County; determine how the use of technological input in payment system affect the performance of SMEs traders at city park hawkers market in Nairobi County and examine how the availability of managerial experience affect the performance of SMEs traders at city park hawkers market in Nairobi County. Nabintu in this study applied survey research design on a sample of SMEs Traders. Nabintu used of questionnaires to collect primary data through interviews as research tools since information that is not directly observable such as feelings, motivations, attitudes, accomplishments as well as experiences of individuals was desirable. It was found out that that access to business information services affected the performance of the business to a great extent because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. In addition, this study found out that technology affected the businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of our products.

Sakwa (2013) did a study on the purposes of youth enterprise development fund on performance of youth run small and micro enterprises in Ruiru District, Kiambu County, Kenya. Sakwa examined the extent of influence of YEDF sponsored business incubators on the number and type of youth run SMEs, as well as to determine how business linkages created by YEDF affected performance of youth run SMEs. In addition, the study wanted to find out how YEDF marketing initiatives impacted on performance of youth run SMEs. A descriptive survey research design was employed whereby characteristics of the fund were described on a subset of the population. Among other things, the study found out that supplier/buyer relationship was deemed most important linkage an SME would wish to establish, and that all the SMEs with airy relationship had changes in annual revenue. In addition, recommended that more funds be channeled through the programme to have tangible effects on performance of funded SMEs, funding to each SME be increased to realize a bigger effect of the fund, the fund be diversified to include tangible assets that can be registered in group names and persons in charge of the fund formulate and implement strategies that would realize all the five purposes of YEDF and not just loaning.

Njanja and Pelissier (2010) did an investigation into the effect of management factors on performance of (micro, small and medium enterprises) in Kenya. The primary aim was to critically investigate the management factors affecting performance of MSMEs in Kenya. The findings reveal that the critical management factors critical to the different categories of enterprises differed in MSMEs. This creates an important beginning in policy recommendation towards economic recovery in Kenya. This study sought to identify critical management factors affecting the performance of MSME's in Kenya by looking at the management process. The study established that the planning function is well applied. Nonetheless, the managers reported that resources would be required in order to implement the strategies. The organizing function was established in the majority of businesses ascertained by the presence of organization charts. The structure in micro businesses was not as elaborate as in the small or medium enterprises. The directing and staffing functions were applied on average in all MSMEs. The business categories displayed a major difference in controls. The medium firms had the highest ratings followed by the small firms. The micro enterprises had the lowest levels of controls.

Wangombe (2013) examined the role of the family counsel board on the growth of small and medium enterprises in Kenya after exit of the founder: a case of Nairobi CBD family small SMEs. The general objective of this study was to establish the role of the family counsel on the financial performance of family small and medium enterprises in Kenya. The study also sought to determine whether family counsel, family counsel skills, family counsel composition and family counsel leadership structure on the financial performance of family small and medium enterprises in Kenya. This study used a descriptive research design. The target population for this study was all the counsel members in family SMEs located in Nairobi Central Business District. The target population for this study was therefore being 720. The sample size of this study will therefore be 72 respondents. Primary data was collected using a questionnaire. The data collected was mainly quantitative, however some qualitative data was collected from the open ended questions to enhance uncover any convergent and divergent views. Descriptive statistics was used to summarize the data.

Mwarari (2013) examined factors influencing listing of Kenyan SMEs in the securities market for capital raising opportunities. The Purpose of this study is to examine the factors influencing listing of SMEs in the securities market as a source of expansion capital. Research design refers to the way the study is designed, that is the method used to carry out the research. The researcher examined twenty respondents drawn from a population of 80 respondents based in Nairobi. The study used both secondary data from other sources and primary data collected using questionnaire to carry out the study. Descriptive statistical tool helped the researcher to describe the data and determine the extent to use. Analysis was done quantitively by use of descriptive and inferential statistics. This included frequencies, mean, tables, percentages, mode and median. The study revealed that access to information influence listing of SMEs in the NSE to greatest extent.

Wanjiku (2009) did an investigation into management strategies affecting performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya. The objectives of this research was to: identify the critical management factors affecting the performance of MSMEs in Kenya; To establish the process through which managerial factors affect the performance of a MSMEs in Kenya; determine the integrative effect of various management factors in the MSMES in Kenya; establish the effect of demographics and management factors on performance; and establish effects of external environment on internal management factors.

Kabinga (2014) Examined factors affecting supplier performance in Small and Medium Enterprises (SMEs) in Kirinyaga County, Kenya. This study focused on the factors affecting supplier performance in Small and Medium Enterprises (SMEs) in Kirinyaga County, Kenya. The factors affecting supplier performance included supplier selection, supplier relationship and supplier evaluation. Literature review was well constructed to bring a good understanding of the study by use of available literature materials. The researcher used descriptive research design which primarily shows the state of affairs as it exists at the present and stratified random sampling to group the businesses into homogeneous entities. The findings from the study confirmed the relationship between factors affecting supplier performance and supplier performance yielding moderate regression coefficient (Supplier selection practices at 5 percent significance level was 0.134, supplier performance criteria was 0.53, supplier relationship was 0.39 and supplier evaluation was 0.61, indicating a moderately positive correlation between the variables.

2.4 Summary of Literature Review

This chapter has reviewed literature by other scholars and researchers on the subject of technological involvement and financial performance of SMEs. The existing studies have concentrated theory and practice in SME performance measurement systems (Hudson, Smart & Bourne, 2001). Other related studies (Lin, 2007; Todd, 2012; Akisimire, 2010; Rahman, 2001) have been conducted in other countries which post different circumstances from those available in Gikomba market. For the studied done in Kenya, they concentrated on other markets (Nabintu, 2013). This study therefore seeks to fill this research gap by determining effect of access to micro financing on financial performance of SMEs' in Gikomba Market, Nairobi County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages that were followed in completing the study. It explains how research is going to be executed and how data was collected and analyzed. The section specifically covers; research design, target population, data collection and data analysis.

3.2 Research Design

The study adopted a descriptive research design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Descriptive studies are concerned with the what, where and how of a phenomenon hence more placed to build a profile on that phenomenon (Mugenda & Mugenda, 2003). Descriptive research design is more appropriate because the study sought to build a profile about the effect of micro financing on financial performance of SMEs in Gikomba Market.

3.3 Population of the Study

Population in statistics is the specific population about which information is desired. According to Kothari (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. This study used secondary and primary data collected from various sources such as questionnaires and interviews . The target population was the SME traders in

Gikomba Market who accessed and used the credit facilities. The study targeted 1, 253 open market vendors within Gikomba Market (Nairobi County, 2014).

3.4 Sample Size

The sample is a subset or representation of the entire population (Mugenda and Mugenda, 2003). The study intended to use a sample size of 125 SMEs within Gikomba Market being 10% of the population. Mugenda and Mugenda (2003) argued that if well selected, a sample of between 10-30% of the population is adequate for generalization of findings to the whole population. For the secondary data, the study used five year period from 2010-2014.

3.5 Data Collection

The study used both primary and secondary data. Primary data was collected using data collection form as illustrated in appendix1. It was tailored to the research objectives. Babbie (2004) cited that the process of collecting data in quantitative studies should involve collection of real-time data from participants. The questionnaires/forms were self administered where the researcher distributed them to the traders at Gikomba market. These questionnaires/forms facilitated easier coding and analysis of data collected. In addition to this, the researcher reviewed secondary data on SMEs available from the business performance records and reports.

3.6 Data Analysis

The study used Statistical Package for Social Sciences Version 21.0 to aid in data analysis. The paired t-test, a non-parametric test of differences developed by Sir Williams Gosset (Mugenda and Mugenda, 2003) was used in this study as a test of significance. The analysis was conducted at 0.05 level of significance.

3.6.1 Analytical Model

In order to determine the effect of access to micro financing on financial performance of SMEs in Gikomba Market, the researcher conducted a multiple regression analysis using the following analytical model.

$Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3 + €$

Where: Y= Financial performance of SMEs (Return on Assets)

X_1= Accessibility to financing (Amount of loan accessed)

X_2 = Savings/deposits (Amounts Saved within the 5 years)

X_3 = Entrepreneurial development (Skills acquired through training)

In order to test the significance of the model in measuring the effect of access to micro financing on the financial performance of SMEs in Gikomba Market, the study conducted an Analysis of Variance (ANOVA). On extracting the ANOVA statistics, the researcher looked at the significance value (P-values). The study tested at 95% confidence level and 5% significant level. If the significance number found is less than the critical value (α) set 2.4, then the conclusion was to be that the model is significant in explaining the relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents data collected from respondents, SME traders in Gikomba Market. The data is presented in form of tables, charts and graphs followed with the analysis and the interpretation of the findings.

4.1 Response Rate

The study targeted 125 respondents. Out of the questionnaires distributed, 75 questionnaires were duly filled and returned giving a response rate of 64% which is within Mugenda and Mugenda (2003) who prescribed the significant response rate for statistical analysis as a minimal value of 50%. The figure below represents the response rate.

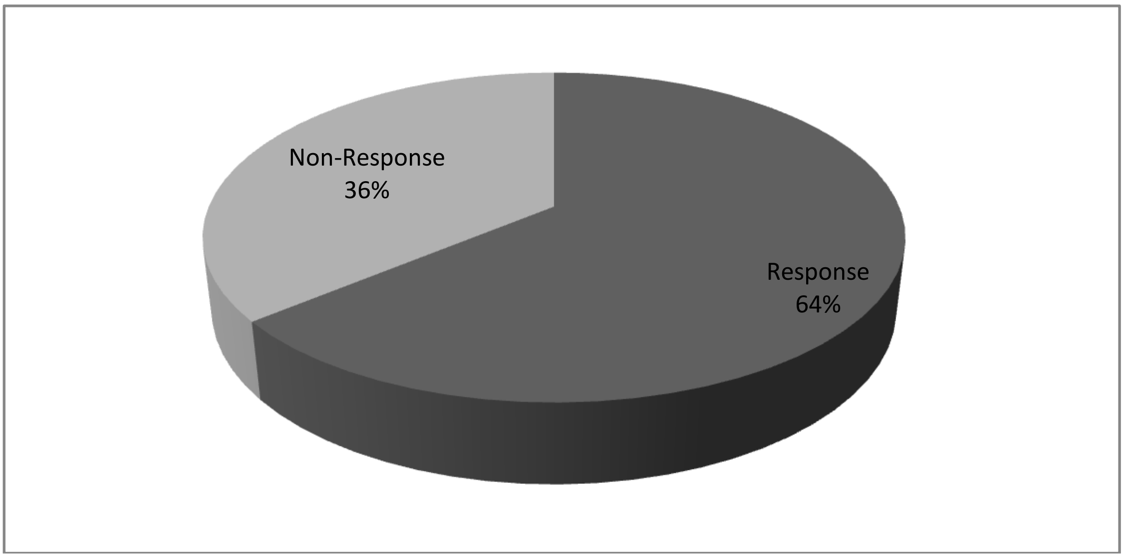

Figure 4.1: Response Rate

4.2 Descriptive Statistics

The study conducted an analysis of descriptive statistics to establish the minimum value, maximum, median, mean and standard deviation in relation to the various variables considered in the study. The findings were as illustrated in the Table 4.1 below:

Table 4.1: Descriptive Statistics

Variable	N	Minimum	Maximum	Median	Mean	Standard Deviation
Amount of Loan Accessed	61	0	400,000	100,000	125,015	163,924
Value of Assets	65	0	20,000,000	250,000	1,062,516	2,624,764
Savings	58	0	5,000,000	106,081	1,275,015	2,151,009
profits generated	55	0	1,000,000	400,000	350,014	409,256

From the findings, the study established the minimum amount of loan accessed as Ksh. 0 with a maximum of Ksh. 400,000, mean of Ksh. 125,015 and a standard deviation of Ksh. 163,924. On the value of assets owned by the businesses, the study established a minimum of KSh.0, maximum of 20,000,000, median of Ksh. 250,000, mean of Ksh. 1,062,516 and a standard deviation of Ksh. 2,624,764. On the savings made by the respondents, the minimum was Ksh. 0 with a maximum of Ksh. 5,000,000. The median was KSh. 106,081. The mean was Ksh. 1,275,015 with a standard deviation of 2,151,009. On the profits generated, the minimum was Ksh. 0 with a maximum of Ksh. 1,000,000, Median of Ksh. 400,000 and mean of Ksh. 350,014 and standard deviation of Ksh. 409,256. These statistics show that the parameters were widely distributed.

4.2.1 Amount Accessed

The respondents were asked to indicate the amount they had accessed as a loan over the last five years. From the responses, those who took up loans of up to 100,000 in 2014 were 33%, in 2013 were 24% in 2012 were 17%, in 2011 were 24% and 15% in 2010.Those who took up loans of between 100,001 to 200,000 in 2014 were 20% of the respondents, 23% in 2013, another 23% in 2012, 19% in 2011 and 24% in 2010. Those who accessed a loan of between 200,001 - 300,000 were 13% in 2014, 20% in 2013, 21% in 2012, another 21% in 2011 and 20% in 2010. The respondents who had accessed loans of up to 300,001-400,000 in 2014 were 16%, 9% in 2013, 21% in 2012, 23% in 2011 and 16% in 2010. The respondents who were given loans of above 400,000 were 17% in 2014, 24% in 2013, 17% in 2012, 13% in 2011 and 25% in 2010. Access to credit is beneficial to the SMEs since it helps in the alleviation of poverty through promoting of the businesses. According to Strong (2008), microfinance has become extremely popular as approach alleviation of poverty through loan financing to SMEs that enable them to start businesses and make other small investments.

4.2.2 Ease of Access

The respondents were asked how easy it was to access the loan. The responses are in Table 4.2.

Table 4.2: Ease of access

	Frequency	Percentage
Very easy	7	9
Moderately easy	24	32
With some difficulties	29	39
Very difficult	15	20
Total	75	100

Only 7% of the respondents said they had accessed the loan easily. 32% said it was moderately easy, 39% said they accessed it but with some difficulties and 20% said it was very difficult. The higher percentage of the respondents said that they accessed the credit with some level of difficulties. According to Copestake (2002), there is discrimination in favor of richer clients, who benefit from better access to credit, and exclusion of poorer people. Thus the microfinance option may not always be the best especially for the poor households due to the difficulty in accessing credit.

4.2.3 Accessibility and Financial Performance

The respondents were asked to what extent the accessibility to credit had influenced financial performance of their business.

Table 4.3: Accessibility and Financial Performance

	Frequency	Percentage
Very great extent	30	40
Great extent	25	33
Moderate extent	12	16
Little extent	5	7
Negligible extent	3	4
Total	75	100

From the responses above 40% of the respondents said to a very great extent, 33% said to a great extent, 16% said to a moderate extent, 7% said to a little extent and 4% said to a negligible extent. These findings are consistent with those of Akisimire (2010) who established that there existed a significant and positive relationship between credit terms and SME performance.

4.2.4 Average Amount Saved

The respondents were asked the average amount they had been able to save/deposit over the last five years. From the responses above those who had saved of up to 100,000 in 2014 were 16%, in 2013 were 9% in 2012 were 20%, in 2011 were 13% and 17% in 2010.Those who had saved of between 100,001 to 200,000 in 2014 were 24% of the respondents, 16% in 2013, 13% in 2012, 29% in 2011 and 20% in 2010. Those who had saved between 200,001- 300,000 were 13% in 2014, 15% in 2013, 16% in 2012, 14% in 2011 and 21% in 2010. The respondents who had had saved between 300,001-400,000 in 2014 were 33%, 31% in 2013, 21% in 2012, 23% in 2011 and 124% in 2010. The respondents who had saved above 400,000 were 13% in 2014, 29% in 2013, 24% in 2012, 15% in 2011 and 17% in 2010. According to Ogujiuba Ohuche & Adenuga (2004) MFIs offer financial services such as savings that are a major backbone for the sustenance and survival of SMEs.

4.2.5 Savings and Business Performance.

The respondents were asked in what ways savings had helped their business performance. The responses are shown in the Table below.

Table 4.4: Savings and business performance

	Yes		No	
	F	%	F	%
Allowed me to borrow from the banks	75	100	0	0
Enabled the bank to measure my sales capacity	55	73	20	27
Improved my relationship with the Bank	60	80	15	20

All the respondents 100% said that savings had allowed them to borrow from the bank. Beck, Demirguc-Kunt & Levine (2005) cited that availing financial services to SMEs plays a key role in determining how they conduct their businesses and the utilization of the available resources. Those who said that savings had enabled the bank to measure their sales capacity were 73% while 27% said No. 80% said that savings had improved their relationship with the bank while 20% said no.

The study further sought to establish whether the respondents had received any form of training from financial institutions. The Table below represents the responses.

Table 4.5: Entrepreneurial development and financial performance

	Frequency	Percentage
Yes	69	92
No	6	8
Total	75	100

The respondents who said they had received any form of training from financial institutions were 92% while 8% said no. There is need for entrepreneurs to be trained on management skills. These skills impact the way they run their businesses. A key determinant of the success of any venture is the management of the business and how they operate the business since management factors have a major impact on the performance of the organization (Njanja & Pelissier 2010).

Those who said yes were asked to rate the extent to which you are conversant on the following skills as a result of the training. 1= Very conversant 2= conversant, 3= moderately conversant 4= a little conversant, 5= Not conversant at all.

Table 4.6: Entrepreneurial Skills

	Mean	Std. Dev
Financial management	1.181	0.0012
Record keeping	1.421	0.254
Business management	1.110	0.321
Investment monitoring	2.986	0.987

From the responses the respondents were strongly conversant with financial management as it scored a mean of 1.981. Record keeping scored a mean of 1.421 an indication that the respondents were conversant. The respondents were also conversant with business management skills and moderately conversant with investment monitoring as they scored means of 1.110 and 2.986 respectively. In order to successful manage a business the managers need to have the relevant management skills as business management is a key determinant of the success of any business. Njanja and Pelissier (2010) concluded that management factors had a significant effect on performance of micro, small and medium enterprises.

4.2.6 Profits Generated

The respondents were asked indicate the profits generated in their business over the last five years. The responses are shown in the table below.

Table 4.7: Profits Generated

Year/	Mean
2014	1,210,000
2013	998,000
2012	1,160,000
2011	920,000
2010	1,025,000

From the responses the average of the respondents profits was 1,210,000 in 2014, 998,000 in 2013, 1,160,000 in 2012,920,000 in 2011 and 1,025,000 in 2010.The main aim of any enterprise is to generate profits. According to Greenwood & Jovanovic, (1990), a profitability ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals.

4.2.7 Value of the Assets

The respondents were asked indicate the total value of assets owned by their businesses over the last five years. The responses are shown in the table 4.9.

Table 4.8: Value of the Assets

Year	Mean
2014	1,640,221
2013	1,221,000
2012	997,000
2011	870,000
2010	903,000

The mean of the respondents' value of assets was valued at 1,640,221 in 2014, 1,221,000 in 2013, 997,000 in 2012, 870,000 in 2011 and 903,000 in 2010. According to Greenwood & Jovanovic, (1990) financial performance is a measure of how well an organization can use assets from its primary mode of business to generate revenues.

4.3 Correlation Analysis

In order to establish the strength of the relationship between the dependent and independent variables, the researcher conducted a Pearson's Moment of Correlation. The findings were as shown in the Table below:

Table 4.9: Correlation Matrix

	Financial performance of SMEs (ROA)	Accessibility to financing	Savings/ deposits	Entrepreneurial development
Financial performance of SMEs (ROA)	1			
Accessibility to financing	.638	1		
Savings/deposits	.764	.523	1	
Entrepreneurial development	.622	.743	.597	1

The data presented before on Accessibility to financing, Savings/deposits and Entrepreneurial development were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors (Accessibility to financing, Savings/deposits and Entrepreneurial development) and financial performance of SMEs. According to the table, there is a positive relationship between financial performance of SMEs and Accessibility to financing, Savings/deposits and Entrepreneurial development of magnitude 0.638, 0.764 and 0.622 respectively. The positive relationship indicates that there is a correlation between the independent variables and financial performance of SMEs. This infers that Savings/deposits had the highest effect on financial performance of SMEs, followed by Accessibility to financing, while Entrepreneurial development had the lowest effect on the financial performance of SMEs within Gikomba market.

4.4 Regression Analysis

In addition, the researcher conducted a regression analysis to establish the consolidated effects of the independent variables on the dependent variable. The findings are presented below:

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869[a]	0.755	0.738	0.26829

a. Predictors: (Constant), Accessibility, Savings, Entrepreneurial development.

The above inserted table depicts model summary of regression analysis between three independent variables including Accessibility to financing, Savings and Entrepreneurial development and a dependent variable namely return on Assets. The table shows that value of R is .869, the value of R square is .755, the value of adjusted R square is .803 and the value of standard error of the estimate is 0.26829. These findings show that the factors studied in this study affect performance of SMEs in Gikomba market up to 73.80% as indicated by the adjusted R Square.

Table 4.11: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19.376	3	6.459	10.378	.012a
Residual	44.185	71	0.6223		
Total	63.561	74			

a. Predictors: (Constant), Accessibility, Savings, Entrepreneurial development.
b. Dependent Variable: Return on assets

The above table depicts ANOVA (Analysis of Variance) of regression analysis between three independent variables including Accessibility, Savings, Entrepreneurial development and a dependent variable namely return on assets. The value of sum of squares is 19.376, the value of df is 3, the value of mean square is 6.459, the value of

F is 10.378, and the significance value is 0.012. Positivity and significance of all values shows that model summary was significant and therefore gives a logical support to the study model.

Table 4.12: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	1.35	0.140		9.64	.013
Accessibility	3.179	0.175	2.475	18.151	.0014
Savings	1.577	0.148	1.142	10.637	.0036
Entrepreneurial development	0.588	0.090	0.539	6.550	.042

a. Dependent Variable: Return on Assets

The regression drawn from the Table above was presented as follows:

$Y_{t\,=}$ 1.350 + 3.179X_1 +1.577 X_2 + 0.588 X_3 + E

The findings from the study showed that all the variables were significant as their significance values were less than 0.05. Accessibility was positively correlated while savings and entrepreneurial development were positively correlated with return on assets. From the model, taking all factors (Accessibility, Savings, Entrepreneurial development) constant at zero, return on assets had an autonomous of 1.350. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in accessibility lead to an increase in return on assets by 3.179. A unit increase in savings lead to a 1.577 decrease in return on assets while a unit increase in entrepreneurial development lead to a 0.588 decrease in return on assets. This indicated that accessibility contributed more to the return on assets while savings and entrepreneurial developments had a positive effect on return on assets.

4.5 Discussion of Research Findings

The study established that the entrepreneurs in the study area accessed different amounts of loan ranging from a low of zero to a maximum of Ksh 400,000. The mean of the value of assets for the SMEs was Ksh. 1,062,516 while the mean for the savings was 1,275,015 and generated profits were Ksh. 350,014. These findings are consistent with some of the findings by Lin (2007) in an empirical study of SMEs in Taiwan. Lin (2007) established that microfinance advanced loans by innovatively determining the applicant's ability and capabilities. As opposed to conventional way used by large financial institutions in assessing the ability of customers to repay, the MFIs used innovative ways to establish this. This lead to their award of even smaller loans compared to main stream financial institutions. These findings are also in line with those of Sakwa (2013) who revealed that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship.

The study also established that accessibility to microfinance affected the performance of SMEs to a great extent. This finding is supported by Chowdhury (2002) also emphasized that favorable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help SMEs keep enough finances to run their working capital activities, it helps them improve their performance because they always had an opportunity cost of reinvesting their proceeds in order to generate more revenues something that increases on their return on capital employed.

On the influence of savings and deposits to financial performance of SMEs, the study established that savings allowed the entrepreneurs a chance to brow from the banks and also measured their revenue generation capacity. This in turn led into building of a strong relationship which saw the entrepreneurs' access more and more credit facilities as their relationship period increased. These findings contradict those presented by Katto (2008) that MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because they (SMEs) do not have adequate or no collateral as indicated by their performance ends up being affected.

The study also established that entrepreneurial development played a key role in the performance of SMEs. The entrepreneurs were trained on financial management, record keeping business management and investment monitoring. These findings are consistent with those proposed by Kumar and Jeyanth (2007) that through frequent interactions between MFIs staff and entrepreneurs, they notice skills deficiency which can be improved through training and due to large economies of scale, MFIs can easily achieve this.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of findings, the discussion and conclusion drawn from the data findings. In addition, it presents the recommendations of the study. All this had been geared toward achieving the objectives of the study.

5.2 Summary of Findings

The study established that the respondents had access to loans from the MFIs though with difficulties. In his study, Copestake (2002) cited that the poor were discriminated against when they wanted to Access credit from the financial institution. He further argued that Micro financing may not be the best alternative in financing poor households since priority was given to the rich. The study also established that there were respondents who had not been able to access the credits. Strong (2008) highlighted that microfinance was a key approach alleviation of poverty among households.

The findings revealed that the respondents had savings in their respective financial institutions. Though there were some that had not saved anything others had saved large sums of money. Ogujiuba Ohuche & Adenuga (2004) listed Savings as one of the financial services offered by MFIs offer that contribute to the sustenance and survival of SMEs. The study established that savings had allowed the entrepreneurs to borrow from the banks, enabled the bank to measure their sales capacity and improved their relationship with the Bank. Demirguc-Kunt & Levine (2005) cited that availing financial services to SMEs determines how they conduct their businesses and the utilization of the available resources.

The study revealed that entrepreneurial development had been offered to the SMEs through training of the entrepreneurs by the financial institutions. Majority of the respondents had received some form of training to improve their management skills. According to Njanja and Pelissier (2010) concluded that management factors had a significant effect on performance of micro, small and medium enterprises. The study established that the entrepreneurs' skills in financial management, record keeping and business management had improved. However the study established that the skill of investment monitoring had not been improved significantly among the entrepreneurs.

5.3 Conclusion

The study made the following conclusions:

The respondents accessed credit from financial institutions but with difficulty and some did not access it at all. The study concludes that the accessibility of credit from credit facilities affects the performance of the SMEs to a very great extent.

On savings, the study concludes that the some of the SMEs owners at Gikomba market have been able to make savings while others have not through their respective MFIs. The study also concludes that saving has allowed the entrepreneurs to borrow from the banks, has enabled the bank to measure their sales capacity and improved relationship between the entrepreneur and the Bank.

The study also concludes that the entrepreneurs have benefited from management training offered by the MFIs. The study also concludes that the training has improved the management skills of the entrepreneurs in Gikomba in financial management, record keeping and business management.

5.4 Recommendations

The study makes the following recommendations:

From the responses it was established that some of the respondents were not able to access credit from the MFIs and majority of those who did, accessed it with difficulty. This study therefore recommends that the management of MFIs revise their lending policies and requirements so as to ensure that most of the traders can be able to access credit more easily. This would be effective in attracting more customers to the MFIs as well as enabling the traders to sustain their businesses.

The study also recommends the MFIs carry out sensitization campaigns on the need to save among the traders. This would be important in ensuring that the customers share of savings is higher thus making it easier to access loans. The study also recommends that the MFIs use that traders savings as part of collateral since most may not have large tracts of land or the physical collateral needed.

The study also recommends that the MFIs offer training and other skills such as marketing, customer service, purchasing and supplies. This would be the key in enabling the traders market their businesses better, offer great customer service and be able to acquire the best produce to supply to their customers. The study also recommends that the training on investment monitoring be offered more hours since it was established that the traders had not improved their skills in the area. This would be the key in enabling them make informed investment decisions.

5.5 Limitations of the Study

Most SMEs in Gikomba market do not maintain proper financial records. This raised a challenge of measuring their performance and particularly the financial aspect and some respondents provided estimates that were relied on. In some cases, the entrepreneurs could not compute properly to give accurate figures for the study. This may have affected the reliability of data collected.

Because most of the SME operators have low education levels, the researcher faced a challenge of explaining technical terms to the respondents. However, to overcome this challenge, the researcher explained most of the terms in Kiswahili which most of the entrepreneurs could easily relate with.

5.6 Suggestions for Further Research

The purpose of this study was to determine the effect of access to micro financing on financial performance of small medium enterprises in Gikomba Market, Nairobi County. The study was only limited to the traders at Gikomba Market and thus the findings cannot be generalized. The study therefore recommends that in the future a similar study be conducted across traders in the country so as to be able to generalize the findings.

This study also recommends that in the future a study be conducted on the strategies adopted by small scale traders so as to ensure customer satisfaction. This study would be important in determining the measures the traders have taken so as to ensure the customers are satisfied with the services offered. This will be important in determining ways in which the traders can increase and retain their customers and thus increasing the profitability of their business.

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APPENDICES

APPENDIX I: DATA COLLECTION FORM

Please tick as appropriate

SECTION A: ACCESSIBILITY TO LOANS AND FINANCIAL PERFORMANCE

1. Please indicate the amount you have accessed as a loan over the last five years

Year/ Amount of loan (Ksh)	2014	2013	2012	2011	2010
0- 100,000					
100,001 – 200,000					
200,001 – 300,000					
300,001 – 400,000					
Above 400, 000					

2. How easy was it to access this loan from the Bank?

   Very easy [ ] moderately easy [ ]

   With some difficulties [ ] Very difficult [ ]

3. To what extent do you think the accessibility to credit has influenced financial performance of your business?

   Very great extent ( ) Great extent ( )

   Moderate extent ( ) Little extent ( )

   Negligible extent ( )

SECTION B: SAVINGS AND FINANCIAL PERFORMANCE OF SMES

4. Please indicate the average amount you have been able to save/deposit over the last five years

Year/ Amount saved (Ksh)	2014	2013	2012	2011	2010
0- 100,000					
100,001 – 200,000					
200,001 – 300,000					
300,001 – 400,000					
Above 400, 000					

5. How have these savings helped you business performance? Please select all ways in which you think the savings have helped your business.

   Improved my relationship with the Bank [ ]

   Enabled the bank to measure my sales capacity [ ]

   Allowed me to borrow from the banks [ ]

   Other (Please clarify) [ ]

   ____

   ____

SECTION C: Entrepreneurial Development and financial performance of SMEs.

6. Have you received any form of training from financial institutions?

   Yes [ ] No [ ]

   If yes, rate the extent to which you are conversant on the following skills as a result of the training. 1= Very conversant 2= conversant, 3= moderately conversant 4= a little conversant, 5= Not conversant at all.

	1	2	3	4	5
Financial management					
Record keeping					
Business management					
Investment monitoring					

Other Please specify

____

____

SECTION D: FINANCIAL PERFORMANCE OF SMES

7. Please indicate the profits generated in your business over the last five years

Year/	Profits generated (Ksh)
2014	
2013	
2012	
2011	
2010	

8. Please indicate the total value of assets for your business

Year	Total Asset Value (Ksh)
2014	
2013	
2012	
2011	
2010	

APPENDIX II: AMOUNT OF LOAN ACCESSED

Year/ Amount of loan	2014		2013		2012		2011		2010	
	F	%	F	%	F	%	F	%	F	%
0- 100,000	25	33	18	24	13	17	18	24	11	15
100,001- 200,000	15	20	17	23	17	23	14	19	18	24
200,001 - 300,000	10	13	15	20	16	21	16	21	15	20
300,001 - 400,000	12	16	7	9	16	21	17	23	12	16
Above 400, 000	13	17	18	24	13	17	10	13	19	25
Total	75	100	75	100	75	100	75	100	75	100

APPENDIX III: AVERAGE AMOUNT SAVED

Amount saved	2014		2013		2012		2011		2010	
	F	%	F	%	F	%	F	%	F	%
0- 100,000	12	16	7	9	15	20	11	13	13	17
100,001 - 200,000	18	24	12	16	10	13	22	29	15	20
200,001- 300,000	10	13	11	15	16	21	14	19	16	21
300,001 - 400,000	25	33	23	31	16	21	17	23	18	24
Above 400, 000	10	13	22	29	18	24	11	15	13	17
Total	75	100	75	100	75	100	75	98	75	100