

**EFFECT OF MICRO-FINANCE ON FINANCIAL PERFORMANCE OF SMALL
AND MEDIUM ENTERPRISES IN KWALE COUNTY, KENYA**

BY

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**RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENT FOR THE AWARD FOR THE DEGREE OF MASTER
OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND
MANAGEMENT SCIENCE, UNIVERSITY OF NAIROBI**

2021

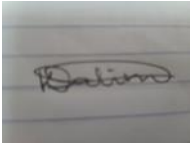
DECLARATION

This research project report is my original work and has not been submitted to any other institution for any award.

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ABBREVIATION

ANOVA	Analysis of Variance
ECLOF	Ecumenical Church Loan Fund
GOK	Government of Kenya
K-REP	Kenya Rural Enterprise Program
KWFT	Kenya Women Enterprise Fund
MF	Microfinance
MFI	Microfinance Institutions
RBV	Resource Based Theory
SME	Small and Medium Enterprises
SMEP	Small and Medium Enterprise Fund
SPSS	Statistical Package for Social Sciences

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ABSTRACT

The study looked to analyze the impact of micro-finance on monetary execution of little and medium endeavors in Kwale County. The targets of the study were: to decide the impact of miniature preparing on monetary execution of SME in Kwale County; to decide the impact of miniature credit on monetary execution of SME in Kwale County; to decide the impact of miniature saving money on monetary execution of SME in Kwale County and to decide the impact of miniature protection on monetary execution of SME in Kwale County. The study was additionally directed by 3 hypotheses specifically, hierarchy hypothesis, asset based hypothesis and dynamic compromise hypothesis. The study embraced a graphic exploration plan, an objective populace of 813 SME administrators in Kwale County, concentrate on example was acquired utilizing Yamane's examining recipe subsequently 274 SME chiefs were occupied with this study. Examination information was gathered utilizing essential and auxiliary apparatuses. Essential examination instruments were tried for legitimacy and unwavering quality before investigation and show of discoveries. Information was dissected utilizing expressive and inferential measurements utilizing SPSS and introduced in tables and diagrams. Study discoveries set up a positive connection between miniature credit, miniature preparing, miniature protection and miniature reserve funds and monetary execution of Small and Medium ventures in Kwale County. It was hence reasoned that; microfinance emphatically impact the monetary exhibition of little and medium undertakings in Kwale County. The study suggested for preparing of SME managers on the various loans offered by microfinance so that they can choose wisely based on the need and ability to repay to discourage loan defaults. The study also recommended for continuity of training to ensure that SME managers are able to carry their businesses through all business cycles, it was noted that training services are offered only when a customer seeks credit. Furthermore, microfinance managers should also encourage SME to save more with them so that they can be liquid and buy shares in the financial institutions and discourage savings as a basis of acquiring a loan. Lastly, microfinance managers should educate their customers on the importance of insurance into their businesses, during the study many respondents indicated that they take insurance but see it as a liability as they do not claim funds contributed.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance service is a set of financial service targeting middle income earners and the poor in the society who previously not served by commercial banks. The main products offered by microfinance institutions include; micro-credits, investment funds, micro-training and micro-insurance (Akindele and Odusina, 2015). For about a century or more, the practise of microfinance has made significant progress and its business portfolio has been marked with addition of innovative products or tailor made services to serve the customer base (Abrar, Hasan & Kabir, 2020). Monetary execution of an organization can be described as the measure of a firm's capacity in attaining set goals through best management practices and proper utilization of resources.

The study hypothetical system depended on the following theories; the pecking order theory, which was based on the assumption that organizations like to utilize interior wellsprings of capital first and will turn to outside sources just if inside sources are insufficient (Myers, 1984. Resource-Based view which gave an illustrative rationale to factors that help a company have an edge over their competitors in a dynamic financial industry that is today flooded by Fintech companies (Penrose, 1959). The theory trade-off related to information asymmetry and high cost of operations that have affected the profitability of firms has pushed financial institution managers to be more careful advancing giving more cash to clients but instead ensure they have adequate capital to maintain high levels of liquidity (Teece, 1990).

Kenyan medium and small scale enterprises majorly found in the informal sector have been identified as largest source of employment for Kenyans who cannot secure white collar Jobs (Charitou, Elfani & Lois, 2016). Due to their high number, they supplement big businesses in production and supply of goods and services that earn billions of shilling used to meet business owners cash requirements and also contribute to the exchequer through pay of taxes and license fees (Charitou, Elfani & Lois, 2016). The factors affecting growth of SMEs is financial constraints, credit cost, information access

and poor capital management. Quite possibly the main challenge facing small businesses is mismanagement of funds.

1.1.1 Micro-finance

Microfinance is term used to define a banking service that is provided to unemployed individuals or poor people in low neighborhoods within cities or the rural areas (Munuve, Githui & Omurwa, 2020). These services provided by microfinance has been offered in the country for decades, however, in the recent past it has undergone major transformations to meet the needs of the target groups. With the growth of the sector in capacity, middle income earners have also become part of the target group while some microfinance have become fully fledged banks. The Government of Kenya (GoK) has in a roundabout way given a lift to the microfinance area. Different establishments give assortment of administration to help the SME area (Mpanju, 2019).

Micro-finance in Kenya was developed to finance the poor and people who were excluded from the conventional banking institutions. Its introduction and adoption is accredited to non-governmental organization efforts to enhance equality in access to financial services and improvement of the general welfare of the people in rural areas. The most notable micro-finance institutions in Kenya include; Kenya Rural Enterprise Program, Kenya Women Enterprise Fund, Small and Medium Enterprise Fund, Ecumenical Church Loan Fund, Faulu and Jamii bora (Omondi and Jagongo, 2018). These micro-finance institutions targeted households and women whom for a long time had been excluded in the conventional banking sector in Kwale County.

Micro finance empowers customers to secure, broaden and increase their earnings, just as to aggregate resources, diminishing their vulnerability to pay and utilization stuns (Musti and Mallum, 2020). Micro-finance institutions can be measured in two dimensions (Mnunka and Oyagi, 2020). One is its effort to needy individuals, that is, its capacity to give helpless families access to credit to monetary administrations. The other measurement is its return on investments made to serve the small and medium enterprise. The study used the measure on returns to survey the monetary exhibition of microfinance serving little and medium undertakings in Kwale County

1.1.2 Financial Performance

According to Pais and Hama (2015) monetary execution of an organization can be described as the measure of a firm's capacity in attaining set goals through good management and utilization of resources it owns. As stated by Kuci (2018) financial performance is a very critical component in the management of an organization, the decisions regarding expenditure are assessed if appropriate to the firm based on the returns that a firm gain. Financial managers across industries attempt to increase or multiply firm returns and limit losses through efficient and effective utilization of organization resources.

Monetary execution is a theoretical extent of how well an association can use assets from its fundamental strategy for business and make revenue (Saglam, Kagitci & Buyukipekci, 2016). Organizations that perform well financially have in place well laid down financial management systems that control financial sourcing, utilization and investment. Finances have to be budgeted for and efficiently utilized for maximum profits or minimization of wastages, the difference between well performing and poor performing firms is normally reflected in such manners. In most cases, a good financial position of a firm can be assessed using income from organization operations, sales and investments at the securities exchange market or investment in real-estate (Yazdanfar and Öhman, 2015).

The execution of little and medium businesses was measured using a number of metrics that look in both financial and non-financial aspects of the organization (Wasiuzzaman, 2015). In assessing financial performance, most scholars rely on monetary proportions like liquidity, dissolvability, productivity, reimbursement limit and monetary effectiveness. Given that the targeted organisations i.e small and medium enterprises had poor record keeping the study measured monetary execution of the SME, this study assessed the performance of SMEs by looking at the solvency of the small businesses. This measure made it possible for SME managers tell the amount of money they had borrowed, invested and the progress they have made after starting the business (Nobanee and Abraham, 2015).

1.1.3 Micro-finance and Financial Performance

Microfinance have brought into the financial market innovative financial products tailor-made to meet the needs of informal business men and women across many business fields (Karadag, 2015). With minimal restrictions and requirements to access credit, microfinance have become the preferred financial partners by individuals and small business owners. SMEs have seized the opportunity and become more financial liquid, expanded their business and gain more financial knowledge from free training provided by the institutions. Free training provided by micro-finance has improved management practises of people working in the informal sector in terms of good financial planning, saving, expenditure and general duty operations (Khan, 2020).

Mbiti, Elegwa, Joseph and Dorothy (2015) analyzed the effect of credit administrations on improvement of SMEs run by ladies in the area of Kitui. The study set up that ladies in business face a great deal of difficulties in getting to the assets while acquiring to begin organizations. Mutuma and Omagwa (2019) checked out the effect of miniature money administrations on execution of SMEs in Meru County as far as money. The examination found a huge positive association between administrations of miniature money and execution of SMEs as far as money. Masini (2015) researched the effect of microfinance establishments on monetary execution of SMEs in the town of Machakos. The result of the examination uncovered that miniature investment funds, little credits and miniature preparing have a huge positive relationship with monetary execution of SMEs.

1.1.4 Small and Medium Enterprises in Kwale County

A little and medium undertaking is a business that works in a limited scale, keeps up with incomes, resources and various representatives past a given edge (Atmadja and Sharma, 2016). Larger part of little and medium undertakings in Kwale County are concentrated in major towns where most of the microfinance institutions are located (Jo and Wi, 2015). Potential customers see the upcoming businesses as unable and incapacitated to offer quality types of assistance and can't fulfill more than one basic venture simultaneously (Munuve, et al, 2020). Although operating in same business environment, big businesses

are able to overcome the pressure of both internal and external environment forces as a result of their human and capital competencies.

1.2 Research Problem

Micro finance has in the recent past upgraded their range of services that include non-financial services to small enterprises, a trend that has attracted the attention of policy makers and other interested parties (Mnunka, et al, 2020). Today a number of microfinances offer a wide scope of non-monetary administrations like monetary preparing on reserve funds, planning and ventures. In addition, micro-finance offers insurance services that mitigate losses that arise from business operations (Yeboah, 2017). These new concepts integrated into the financial practices of microfinance business are in line with the assumptions of dynamic theory proponents who advocate for acquisition of new methods and improvement of business process in order to survive in a competitive financial market. With a wide range of products offered by micro-finances today, it's been challenging to most SME owners to find the right combination of microfinance services to enhance SME adaptability and improve on their financial performance has not been clearly spelt out. This created a sense of uncertainty on SME owners on whether to integrate all micro-finances services to their businesses or focus on the most relevant services.

Microfinance in Kenya are believed to offer cheaper sources of finance to SMEs, provision of capital to SMEs has helped them to flourish in their ambition to grow and gain more financial muscle to compete effectively in the market (Omondi and Jagongo, 2018). However, almost nothing is known on the real expense for microfinance customers to get to both monetary and non-monetary administrations given. When applying for a loan most small business owners are worried by the amount of interest they will pay in addition to the principal amount borrowed, most of them are not aware of the hidden costs incurred before the loan is processed. Other payments that they fail to put into consideration but have an effect in the total amount paid back is fine for late payment, transaction cost over mobile services and time used in visiting microfinance offices to make payments (Masini, 2015).

The study reviewed a number of studies relating to micro-finance and financial performance of SMEs, for example; Mbiti, Elegwa, Joseph and Dorothy (2015) researched the effect of credit administrations on advancement of SMEs run by women in the county of Kitui. It was established that women in business confront difficulties during time spent in getting the funds while borrowing start businesses. The study does not show an immediate connection among microfinance and the SMES. Mutuma and Omagwa (2019) hoped to set up the effect of miniature money administrations on execution of SMEs in Meru County in terms of finance. The investigation discovered a genuinely solid positive connection between services of micro-finance and performance of SMEs in terms of finance. Masini (2015) researched the effects of microfinance foundations on money related execution of SMEs in the town of Machakos. The result of the examination uncovered that MFIs miniature reserve funds, little credits and instructing had a really amazing positive association on the financial presentation of the SMEs. Monge (2016) explored the impact of little credits on execution of SMEs in the district of Dar – es-salaam in Tanzania. Most of the studies reviewed targeted only small and medium enterprise managers leaving out officials from micro-finance institutions that could have shed light on critical issues relating to micro-financing. Ismail (2017) attempted to solve this problem by targeting both SME managers and micro-finance institution officials in his analysis; however, the author adopted a survey approach and failed to give a detailed analysis of the problem. From the reviews given, it's evident no study has focused on the impact of Microfinance on SME especially in the district of Kwale which is important to this study. The point of the study was to give an extensive response to the hole distinguished through the accompanying assessment; what is the impact of miniature money on monetary execution of SMEs in Kwale County?

1.3 Study Objective

Examined the effect of micro-finance on monetary execution of little and medium ventures in Kwale County.

1.4 Value of the Study

Findings of the study revealed insights into the connection between microfinance financial services and how they aid the monetary execution of SMEs. This are likely to

help strategy creators think of considerable conceivable elective approach mediations which assist with resolving issues and difficulties which SMEs face.

The finding of the research was useful to SMEs owners to have the option to use the items given by microfinance in the correct manner that empowered them to have satisfactory monetary execution. The study will probably expand the degree of thinking in obtaining capital through monetary foundations and illuminate private companies on investment funds abilities for their organizations, along these lines widening the extension and capacity to subsidize organizations, coming about to further developed pay consequently better monetary execution of the SMEs. Students and academic researchers might utilize the after effects of this study in establishing basis in research in understanding the nature of the problem, the concepts investigated and the comprehensive reviews as a reference point in understanding how micro-finance contribute to the financial performance of SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Covered in this piece of the review are the hypotheses utilized as a base for hypothetical contention; Pecking request hypothesis; Resource based hypothesis and Dynamic compromise hypothesis. It likewise covered the study observational audit, the variable determinants, the Conceptual structure and the writing Summary.

2.2 Theoretical Review

The study theoretical review comprised of the Pecking Order theory; Resource based hypothesis and Dynamic compromise hypothesis.

2.2.1 Pecking Order Theory

As cited by Myers in 1984, organizations like to utilize internal finances first and go for borrowed funds if interior sources are equity is not enough (Okafor, 2020). Different scholars have established that small and medium have varied capital requirements depending on the sector they operate in. also based on management characteristics, the choice of financing between equity and debt considerable varies. Due to their exclusion from primary financial markets like banks, SMEs have most relied on private sources such as family and social support to finance their businesses (Khan, et al. 2020). The most common reasons for not accessing credit from banks is information asymmetry and lack of collateral to act as security.

This theory is helpful in explaining capital acquisition decisions in nearly all situations; the expense of getting capital to finance upcoming ventures is normally higher than it is for bigger organizations (Omondi and Jagongo, 2018). Due to information asymmetry,

lenders find it difficult to score the credit worthiness of small scale enterprise owners hence classify them as high risk creditors. The consequences of being categorized as a high risk borrower show that they can easily default hence charged higher rates or have their little assets attached to the loan as collateral (Khan, et al. 2020).

When crediting to small ventures, most monetary establishments require the proprietors of the private companies to actually ensure the advance (Michello and Wanorie, 2015). Perhaps the most recognizable inadequacy of the theory is that it neglects to consolidate the impact of expenses, cost of giving new protections, office cost, monetary misery which decide the whole amount that can be reimbursed back to the money lender (Wasiuzzaman, 2015). However, this theory was used in this study as it was relevant in explaining SME credit acquisition decisions, as most SMEs start with internal financing before looking for external sources.

2.2.2 Resource-Based View Theory

This hypothesis was formed by Penrose in the 1950s, the resource based theory (RBV) is based on the assumptions that to gain optimum benefit from the use of organization resources managers need to be rational in deciding the type of financial product they prefer between debt and equity (Aladejebi, 2019). These set of beliefs have contributed heavily in the shaping managers understanding of resource utilization and the significant role it plays in enabling firm competitiveness. A single source of income or resource is not sufficient to guarantee the survival of a business, so managers are required to create a pool of resources either through equity or debt so as to be in a position to meet business financial needs and other financial obligations (Nobanee & Abraham, 2015).

Without variety in associations abilities and assets, openings for planning and rivalry would be decreased. Likewise, RBV expects that associations impact their intriguing stacks of resources for achieve upper hand (Sussan and Obamuyi, 2018). Proponents of the theory call for managers in both small and medium enterprises and well established companies to at all times to take stock of their financial and none-financial resources so as they can understand their strength and compete effectively with their immediate rivals. With the right people, infrastructure, equipment's and sufficient cash, it may be impossible to take on opportunities that are profitable or diversify businesses into areas

that are emerging and very promising in other sectors of the economy, (Akingunola, Olowofela & Yunusa, 2018).

RBV perspective is grounded on in considerations that associations are heterogeneous and factors are not entirely compact among firms (Aktas, Croci & Petmezas, 2015). These assumptions become hazardous in the current period where speeding up of innovative change; globalization, trans-hierarchical coordinated effort and the accessibility of profoundly talented work imply that assets are progressively versatile and open to firms around the world (Aktas, Croci & Petmezas, 2015). For instance, open source code, permitting arrangements and different types of inter-organizational collusions have particularly made everything fair in numerous businesses. Considering these conditions, a few analysts recommend that competitive advantage will rise out of powerfully reconfiguring assets after some time as opposed to the assets themselves (Aladejebi, 2019). The study found this theory appropriate for this study in the sense that, it clearly explained the importance of developing employees as a resource through training offered by financial institutions with an aim to improve SME financial performance.

2.2.3 Dynamic Trade-off Theory

This theory is attributed to David Teece who developed it in 1990, who stated that business make effort to find new resource for the organization that give such an organization an edge over its competitors (Badullahewage, 2020). As reported by Hailu and Venkateswarlu (2016) organization redevelop or adopt new organization frameworks to fit in their new work environment. Firms who adopt to change easily survive; however, changes especially in terms of technology and human resources require huge financial investments that can be challenging to little and medium undertakings.

In settling on financing choices, administrators of little and medium undertakings focus on areas that will earn the business above normal profits so that they can meet their operation expenses, save and invest in other portfolios that expand the business empires (Mahat and Zannah, 2017). Due to harsh economic times and scarcity of resources, business managers have to borrow to finance their business operations. Due to the capacity and resources they hold, small and medium business managers rely on informal

and formal financing institutions that have a framework of supporting such kind of businesses (Pais and Hama, 2015).

Small and medium businesses do not operate in a vacuum, they face tight competition from big companies that target the same customers with superior and quality products (Iqbal, 2015). In an attempt to compete effectively, most small businesses have failed to make an impact due to mismanagement of finances. Managers have poor track of money borrowed, spent and earned which complicates their credit worthiness hence fail to qualify for loans. The misappropriation of money has been linked to such issues as lack of skills and experience that affect the planning and implementation of strategies that could easily give an edge of the businesses over the others (Farghly, Saleh, Youssef, & Bary, 2018). The theory was useful in this study, as it helped in finding the relevance of training, insurance and savings that were adopted by SMEs to enhance their financial performance.

2.3 Determinants of Financial Performance

2.3.1 Micro-Training

Education and training in small businesses can assume a vital part in its turn of events. The degree of education and training needed to foster every business management abilities is profoundly subject to the degrees of human resources that people may as of now have prior to setting out upon their pioneering venture (Atmadja and Sharma, 2016). Without a doubt, it has been contended that fostering these ranges of abilities will incite ambitious people who ought to be prepared to satisfy their latent capacity and make their own fates, regardless of whether they are entrepreneurs (Pei-Wen, et al. 2016). Recognizing how small firms can be changed into development oriented firms stays trickily and in spite of the size of examination on development firms, analysts stay questionable with respect to why a few firms develop and others don't while starting from comparative conditions.

Small businesses at an infant stage require huge amount of money and resources to gain a strong foundation and survive the turbulent environment in the first years of its operations (Kuci, 2018). In addition to money they need other help administrations, for

example, preparing and protection benefits that will support uninterrupted operations of the business. Like any other business, face a number of challenges that prevail in the business environment. As a result, small scale business managers need the necessary management capabilities to maneuver the tricky business environment and lead their businesses towards profitability (Yeboah, 2017).

Failure by small business managers to gain management knowledge is seen as the most contributors to poor performance by small and medium businesses (Sani, et al, 2018). Many people start businesses in sectors that they have very little knowledge about, for some they have knowledge on business management but only initiate the process then handover to their spouses or other relatives as a way of keeping them busy. Their focus is on making a profit failing to sum up all factors that may influence the business outcome either negatively or positively. Microfinance institutions have provided training to employees for a long time now; however, their positive contribution is yet to be proved as many small businesses still fail (Okafor, 2020).

2.3.2 Micro- Credit

Individuals acquire loans when there are deficient collected investment funds to back a business (Babarinde, et al, 2019). They likewise contemplate if the profit from acquired assets surpasses the financing cost charged on the credit and in the event that it is invaluable to get instead of to defer the business tasks until when it is feasible to aggregate adequate investment funds, expecting the ability to support the obligation is sure. Advances are generally gained for usefulness reasons; that is to produce income inside a business (Khan, 2020).

In non-industrial nations, Microfinance are the primary provider of monetary administrations to little and medium undertakings and medium income earning households (Zhiri, 2017). In traditional banking credit requirements, loan officers ask for security that most small scale business people do not have. In most cases, they apply for small amount of credit as compared to the employed or those running big successful businesses. The amount of credit to be advanced is normally pegged on the savings that an individual has and the period that they have transacted business with the microfinance. Given that the income levels of the small business owners are low, normally they save in

groups and group members act as guarantors hence making it easy to access credit (Sussan and Obamuyi, 2018). In case a member of the group defaults, members can contribute to repay the loan.

2.3.3 Micro-Savings

Microfinances assume a vital part in activating assets for the customers who in most cases are low income earners and owners of small and medium businesses (Badullahewage, 2020). Savings products offered in microfinance include personal and group accounts that allow for savings of weekly or monthly amounts in order to accommodate all types of customers. In group accounts, members meet weekly or twice a month and collect agreed amount to be contributed and then deposit in the account jointly or hand it over to a business relationship officer who visits them at their meeting area, in most the place members reside (Mpanju, 2019).

Mobilization of savings in the microfinance area has always been very critical and controversial. Micro-finance has expanded mindfulness among strategy producers and experts on the immense number of casual reserve funds plans (Ruslan, Gan, Hu & Quang, 2020). Studies carried out by Mahat and Zannah (2017) to observe the impact of microfinance administrations on the improvement of SMEs in Kenya, found that venture reserves added to the advancement of SMEs. Worokinasih and Potipiroon (2019) did an examination to choose the association between miniature investment funds and advancement of SMEs. The examination found a positive unsurprising association between miniature reserve funds and advancement of SMEs. The result from this examination in like manner maintains the assertions that hold assets with microfinance establishments guarantees consistent development of SMEs.

2.3.4 Micro-Insurance

Miniature finance is among the administrations and results that are researched by microfinance as a team with insurance agencies (Akingunola, et al. 2018). This depends on the reason that the accomplishment of the little and medium undertaking region is in the chance of being helped if an association is made of SMEs and suppliers of administration like protection suppliers. On the off chance that a SME faces disaster like fir, strike or that its agents are hurt crushing ceaselessly, they need to have assurance

cover such projections as disasters might leave them vulnerable in case they don't have a security cover (Mnunka and Oyagi, 2020). Microfinance have understood this need and are endeavoring to make a connection between the SMEs and the protection suppliers.

The proprietors of SMEs need to foster recuperation designs in the event of an event to the business that is over their control (Omondi & Jagongo, 2018). In so doing they have a plan before hand to address the eventuality that a loss may occur on the business. Failure to plan for mitigation measures can be costly to the business and shareholders in general (Navaya, 2019). Many groups that offer loans to people also offer protection or assurance conspire as guarantee and the Grameen bank is a normal representation of microfinance in this arrangement. One level of the development is should have been presented by the gathering as their responsibility for the security for the credit.

2.4 Empirical Review

Mbiti, Elegwa, Joseph and Dorothy (2015) inspected effect of credit access on the efficiency of Small and Medium Enterprises enlisted and working in Kitui County. The study embraced an enlightening methodology and designated 390 medium and little undertakings utilizing a delineated inspecting strategy. The study utilized surveys and meeting timetables to gather essential information from designated respondents. Examination of discoveries set up that ladies possessed ventures confronted obstructions in getting to credit when contrasted with the male partners. Taking everything into account, it was set up that credit access emphatically and fundamentally influences the monetary exhibition little and medium undertakings possessed by ladies.

Mutuma and Omagwa (2019) completed a study to decide the nature and level of meaning of the connection between administrations presented by microfinance organizations on monetary efficiency of SMEs enlisted and working in the province of Meru. The study configuration approach took on was an exploratory examination plan, this methodology was utilized to give a reasonable portrayal of the connection between the study peculiarity. From the designated populace, the study utilized an example of 93

little and medium endeavors. The exploration utilized polls to gather essential information, information gathered was investigated utilized relapse, connection and Analysis of Variance (ANOVA) strategies. The exploration observed the arrangement of microfinance administrations to have a positive relationship with monetary execution of little and medium endeavors in Meru County.

Masini (2015) explored the effect of miniature money organizations on monetary usefulness of independent ventures in Machakos. Expressive exploration configuration was taken on in the review and surveys were utilized to gather information for the study. Additionally the illustrative examination configuration was extremely fundamental in factor recognizable proof and development of the speculation of the exploration. Essential information was gathered by utilization of auxiliary information assortment techniques. The outcomes showed that MFI items offered had a strong positive association with monetary performance of SMEs while a frail positive connection between miniature protection and monetary performance of SMEs.

Monge (2016) assessed the impact of miniature credit on the monetary exhibition of Small and Medium Enterprises in Temeke district, Dar-es-salaam Tanzania. Different methods of reasoning were utilized including meeting miniature credit clients through overview and conversing with administrative gatherings to deliver and acquire key information. Frequencies and basic rate graphical outlines were the engaging insights utilized in show of study discoveries. Study discoveries uncovered accessibility of microfinance administrations helped in the improvement of little and medium endeavor benefit.

Ismail (2017) investigated on the effect of microfinance administrations by microfinance establishments on the presentation of SMEs in Kilifi County. The specialist directed an overview to have the objectives of the exploration satisfied. Data was gotten by meeting administrators of the designated entrepreneurs in the area. The scientist took on delineated examining strategy in recognizing the example size fitting for the study. Questionnaires were used in data collection, data obtained was subjected to validity and reliability using a pilot test. The study established that microfinance services by the

microfinance institutions significantly and positively influence the financial performance of SME.

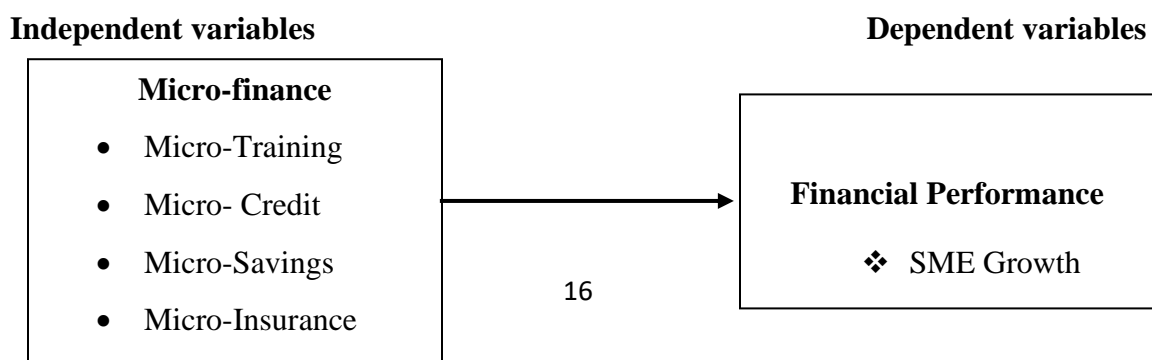
2.5 Summary of literature Review and Research Gap

The theoretical and empirical survey plainly clarified the presumptions, ideas and logical premise of directing this review. Various examinations were audited in this concentrate, for example, Mutuma and Omagwa (2019) did a study to decide the nature and level of meaning of the connection between administrations presented by microfinance organizations on monetary usefulness of SMEs enrolled and working in the region of Meru. Masini (2015) explored the effect of miniature money foundations on monetary usefulness of independent companies in Machakos. Monge (2016) assessed the impact of miniature credit on the monetary presentation of Small and Medium Enterprises in Temeke district, Dar-es-salaam Tanzania, be that as it may, the study didn't zero in on microfinance benefits and was additionally done external the country. Ultimately, Ismail (2017) explored on the effect of microfinance administrations by microfinance organizations on the exhibition of SMEs in Kilifi County. The study set up that microfinance administrations by the microfinance organizations essentially and emphatically impact the monetary presentation of SME. The above studies failed to address the case of Kwale. The empirical reviews used in this study revealed a gap in literature that this study sought to fill.

2.6 Conceptual framework

The structure showed connections of the effect of microfinance on SMEs monetary execution. The idea was changed over into factors to help simple estimation despite the fact that the level of exactness with which they can be estimated differs from one scale to another.

Figure 2.1: Conceptual framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This segment covered the study research plan and target populace, the sample size and choice procedures, information assortment strategies, concentrate on legitimacy and unwavering quality and methods that will be utilized to dissect concentrate on information

3.2 Research Design

According to Kothari (2004) an exploration configuration is a logical methodology that directs the concentrate in doing an examination study with a point of getting authentic revelations. The assessment took on an unmistakable examination plan with a state of giving a point by point investigation of the connection among microfinance and the monetary exhibition of little and medium endeavors. The study chose the descriptive approach as it aided in giving a correct presentation of the phenomenon under study.

3.3 Target Population

A populace is a particular course of action of people, administrations, components, and occasions, groups of things or families that are being examined (Ngechu, 2004). This research engaged a total of 873 SMEs managers operating in Kwale county government.

Table 3.1: Population of SMEs in Kwale County

SME sector	Population
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Textile & Clothing	200
Food & Beverages	350
Processing & Manufacturing	3
Construction	25
Retailing	250
Rental agencies	30
Financial services	15
Total	873

Source: NBS Economic Survey (2020)

3.4 Sampling Technique

As per Mugenda and Mugenda (2003) an example is a percentage or part of the population the researcher intended to use on conducting the study whose findings was used to generalize to reflect the whole population while sampling is a cycle of choosing various people for an examination so that the people chose address the huge population from which they were chosen. To achieve the sample from the population which was divided into many sub population groups, the stratified sampling method was used. This research applied the Neyman portion test formulae to work out the example size since it was easy to utilize. As a result, 274 SME managers were engaged in this study.

$$n = \frac{N}{1 + N (e)^2}$$

By which, N is the objective populace, n is the example size and e is the degree of accuracy and in this study, 95% degree of certainty was utilized which allowed 0.05 opportunity of deviation from the real. In this manner;

$$n = 873$$

$$1 + 873 (0.05)^2$$

$$n = \frac{873}{3.1825}$$

$$n = 274$$

3.5 Data Collection Methods

Polls were fundamentally used to gather information from the inspected little and medium undertakings. The inquiries were organized dependent on a likert scale so the respondents can offer their input on the various factors being tried in the examination. Questionnaires were used on the basis that they are easy to oversee and the respondents can answer them at their own preference. Personal contacts were made to all targeted respondents and questionnaires physically handed to them and request made to them to provide data for analysis and reporting. Auxiliary information was gathered utilizing information assortment sheets as introduced in Appendix iii.

3.6 Validity and Reliability of Research Instruments

3.6.1 Pilot Study

Preceding the fundamental study, a pilot study establishing 10% of the designated respondents was done. In that capacity, in this way, 26 respondents partook in the pilot study. The respondents who taking an interest in this study were rejected from the primary study (Kothari and Garg, 2014). The point of undertaking a pilot test was to set up any expected shortcomings of the examination instrument by testing both the dependability and legitimacy of the instrument. In this study, a pre-test sample of 10% was used in which the questionnaire items were finally rephrased to eliminate any mistakes (Kothari and Garg, 2014).

3.6.2 Research Validity

Validity is characterized as how much an instrument estimates that what it was planned to estimate or measure (Kothari, 2010). Kothari (2010) further elaborate that validity is introduced with the understanding that what is being considered can be assessed or gotten, hopes to insist reality and precision of any revelations or finishes drawn from the data, shows that the closures drawn are dependable and exhibits that the procedures warrant the closures. The legitimacy of this exploration instrument was evaluated through the assessment of experts especially overseers of examination, who are learned in this field. It was had a go at during the pilot study and consequently, any vulnerability or non-

clearness in the study was cleared before the survey was taken to the field for gathering of information.

3.6.2 Research Reliability

In this study, research reliability is defined as a measure of consistency; the measures ascertain the degree to which the outcomes can be imitated when the examination is duplicated under same condition (Ngechu, 2004). Reliability was accomplished if research instrument has inner consistency. The dependability of the examination devices in this exploration was done utilizing the test re-test strategy. In test re-test, reliability was controlled by regulating a test at two unique focuses on schedule to similar people and deciding the connection or strength of relationship of the two arrangements of scores. Dependability was dictated by looking at the consistency of the examination outcomes of the estimating items dependent on the trials that have been done several times. Cronbach's alpha coefficient was utilized an action to qualify dependability of exploration instruments.

3.7 Data Analysis and Presentation

Participant's responses were subjected to scrutiny for completeness in terms of errors and mean, percentages, standard deviation and frequency distribution tables which form the descriptive statistics are the ones that the study will employ to describe the distribution of measurements. Inferential statistics comprising of correlation, regression and analysis of variance was done utilizing Statistical Package for Social Sciences (SPSS) with an aim of establishing the magnitude of the relationships between the study variables (Cooper and Schindler, 2010). The regression model to be used is as stated below;

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

Y = Monetary execution

X₁ = Micro-Credit

X₂ = Micro-Training

X₃ = Micro-Savings

X₄ = Micro-Insurance

ε = Random component

β_0 indicates the intercept of the model which is a constant.

β_1 to β_n i.e. $\beta_1, \beta_2, \beta_3, \beta_4$ are constants that show the coefficients of each of the independent variables of the regression model.

ε , this is the error term which is random in nature and there is an assumption that it is normally distributed.

3.8 Operationalization of variables

Item	Measurement	Empirical evidence
Financial performance	SME Growth	Monge (2016)
Micro-Credit	Total loan received in a financial year	Mutuma and Omagwa (2019)
Micro-Savings	Total savings made in a financial year	Masini (2015)
Micro-Insurance	Total premium paid in a financial year	Monge (2016)
Micro-training	Skills acquired	Mbiti, Elegwa, Joseph & Dorothy (2015)

3.9 Test of Significance

Trial of importance for the review factors was finished utilizing t-measurements trying to discover the affectability of every autonomous variable and their impact on the reliant variable for this situation monetary execution of SMEs in Kwale County. If results

obtained for the tests fall within the accepted level of 0.5, it was concluded that the value were significant and useful in analyzing and present study findings. The study focused on t-values in assessing the variance recorded among the tested values standard errors.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter covers the response rate, the pilot tests, reliability and validity of research instruments, analysis of general information, analysis of variables, correlation, regression and Analysis of variance.

4.2 Response rate

The scientist managed 274 polls to targeted SME managers in Kwale county to fill and provide data for analysis. Respondents successful filled and returned 200 questionnaires which provided required data that was analysed and presented in this study. Filled questionnaires gave a reaction pace of 73%, the reaction was acceptable thought of sufficient by the researcher.

Table 4.1: Response rate

Item	Frequency	Percentage
Filled questionnaires	200	73%
Unfilled questionnaires	74	27%
Total	274	100%

Source: Research data (2021)

4.3 Pilot test

4.3.1 Reliability Test

Unwavering quality of the study factors was tried by utilization of Cronbach alpha technique. The investigation gave a general alpha of 0.741 which was over the normal 0.7 alpha henceforth the information got was dependable in summing up the study discoveries. The study led an unwavering quality test for every one of the study factors utilizing a Cronbach alpha technique. From the discoveries as shown in the table beneath; all factors had an alpha of more than 0.7, it's inferred that the review information was dependable and had a serious level of consistency. The table underneath gave the unwavering quality outcomes to the review factors tried by the utilization of Cronbach alpha.

Table 4.2: Reliability

Variable	Cronbach alpha	Item	Decision
Micro-credit	0.712	5	Accepted
Micro-training	0.704	5	Accepted
Micro-savings	0.731	5	Accepted
Micro-insurance	0.757	5	Accepted
Total	0.741	5	Accepted

Source: Research data (2021)

4.3.2 Validity Test

According to Tukuni Mulongo (2016), validity is characterized as the degree to which information assortment strategy precisely gauges what is expected by the study. To ascertain validity of the research instruments, the study used face, construct and contents. Content validity tests were conducted to assess whether data obtained using the

instruments gave all aspects of the construct. The questionnaires were reviewed by the supervisor and confirmed that they covered the content. Face validity measures whether the test shows up (at face worth) to gauge what it cases to. The motivation behind the instruments was extremely obvious to all respondents subsequently there was high face legitimacy. Develop legitimacy is the degree to which the action 'acts' in a manner reliable with hypothetical theories and addresses how well scores on the instrument are demonstrative of the hypothetical build. The study has sufficient empirical reviews to support what the study wanted to measure.

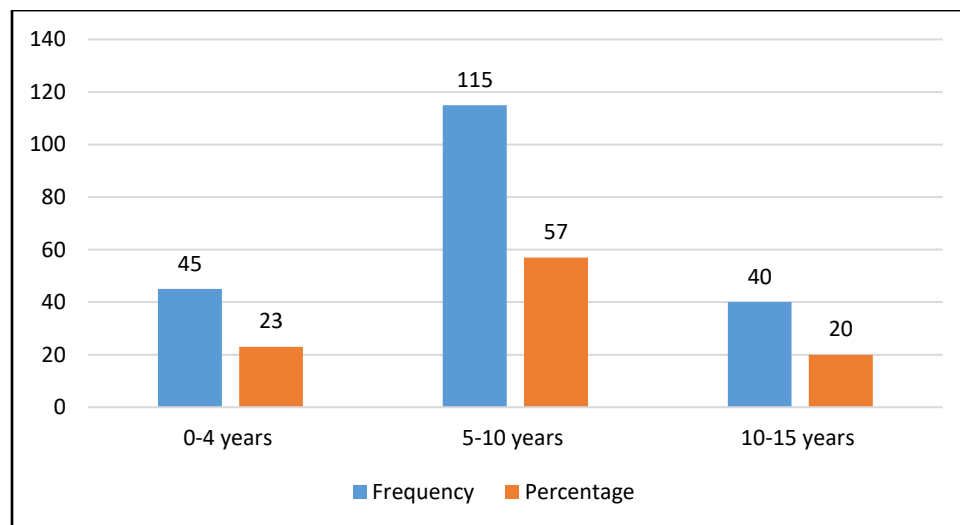
4.4 General Information

The study analysed respondents background information relating to length of operating business, sources of starting capital and source of investment funds. The results are as illustrated in the figures below;

4.4.1 Length of operating business

Study respondents were asked to showed the time span they have worked their organizations in Kwale County. The reactions were as outlined in the figure underneath.

Figure 4.1: Length of operating business



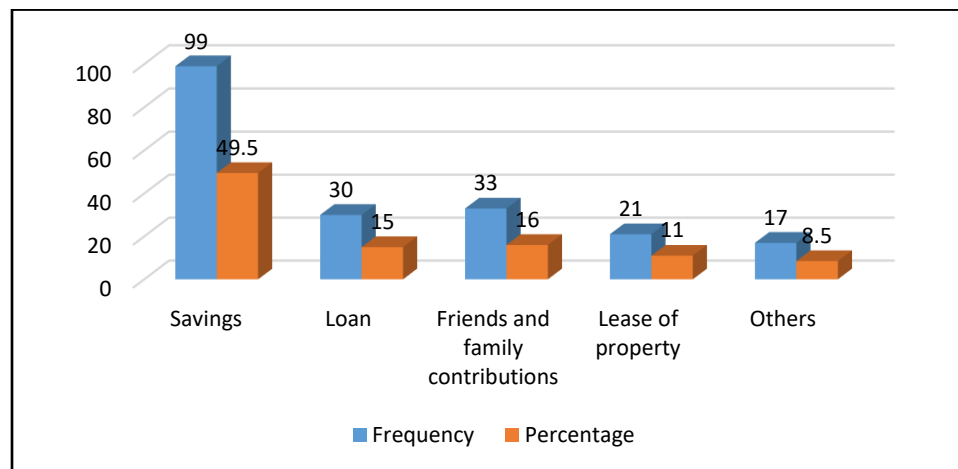
Source: Research data (2021)

As illustrated in the figure above, small and medium enterprises which had operated for 0-4 years recorded 23%; SME that had operated for 5-10 years recorded 57% while SME which had operated for 10-15 years had 20%. From the findings, it was established that majority of SMEs have worked for a time of over 5 years, the period is considered sufficient for SME to have consumed microfinance products and could tell whether there was a positive or negative effect.

4.4.2 Sources of starting capital

Study respondents were asked to indicate the sources of their starting capital based on choices provided in Kwale County. The responses were as outlined in the figure beneath.

Figure 4.2: Source of starting capital



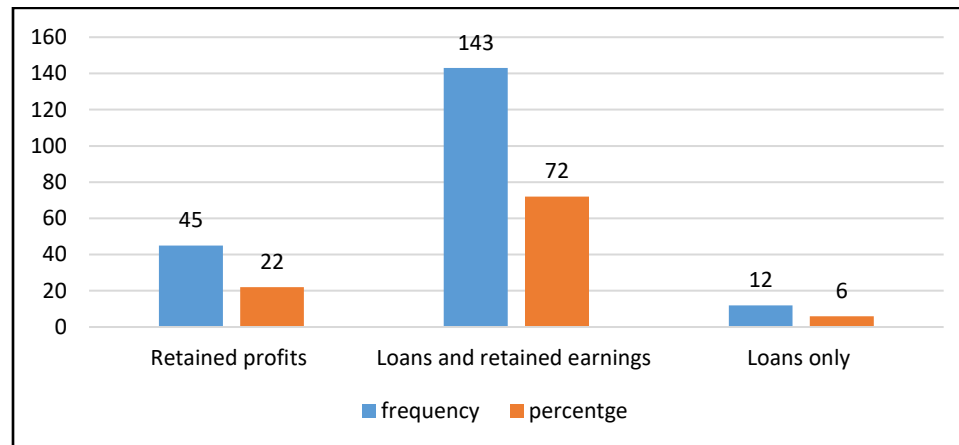
Source: Research Data (2021)

As illustrated in the figure above, use of savings in starting a business recorded 49.5%, starting a business using a loan recorded 15%, using friends and family contribution recorded 16%, lease of property recorded 11% while other sources of capital not captured in the study recorded 8.5%. From the findings, it was established that majority of SME managers do not prefer borrowing from microfinances as a source of starting capital.

4.4.2 Source of investment funds

Study respondents were asked to indicate the sources of investment funds for their existing businesses based on choices provided in Kwale County. The responses were as outlined in the figure underneath.

Figure 4.3: Source of investment funds



Source: Research data (2021)

As illustrated in the figure above, sources of investment use of retained profits recorded 22%, use of retained earnings and loans recorded 72% while use of loans only recorded 6%. From the discoveries of the study, it was set up that SME managers prefer borrowing from the microfinances when their businesses are already in operational.

4.4 Analysis of study variables

4.4.1 Micro-Credit

The study sought to establish the influence of Micro-credit on financial performance of SME in Kwale County. The descriptive analysis findings are as illustrated below;

Table 4.3: Micro-credit

Statement	Mean	Std.dev
Credit is easily accessible from MF	3.9000	1.1400
Loan amount provided by MF meet SME business needs	4.3200	.91115
Medium term loans offered enable SME owners to invest in profitable opportunities	3.1100	.71205
Short term loans offered help in meeting emergency-situations	4.4201	.85322

The collateral required is within reach of SME owners	3.9012	.78901
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Source: Survey data (2021)

As displayed in table 4.3; the expressive measures on miniature credit and monetary execution are as per the following. As introduced over, the discoveries show that on normal mean of 3.1100 and 4.4201 respondents concurred that miniature credit impacts monetary performance of SMEs in Kwale region. As displayed in the table over; the assertion on:Credit is easily accessible from MF had a mean of 3.9000; Loan amount provided by MF meet SME business needs had a mean of 4.3200, Medium term loans offered enable SME owners to invest in profitable opportunities had a mean of 3.1100, Short term loans offered help in meeting emergency situations had a mean of 4.4201 while the statement on the collateral required is within reach of SME owners had a mean of 3.9012.

4.4.2 Micro-Training

The study looked to set up the impact of Micro-preparing on monetary execution of SME in Kwale County. The descriptive analysis findings are as illustrated below;

Table 4.4: Micro-Training

Statement	Mean	Std.dev
The recurrence of training programs presented by the MF- is adequate.	3.1610	0.88121
Training on administration abilities presented by the MF is- Adequate to the business.	4.2300	0.91551
Preparing on record keeping by the MF is fundamental for- the business.	3.4870	1.60453
Loan management training has helped business reduce- default rates	4.6400	1.45223
Training on investment has helped SME owners expand- their businesses	3.9012	1.01144

Source: Survey data (2021)

As introduced over, the discoveries show that on normal mean of 3.1610 and 4.6400 respondents concurred that miniature preparing impacts monetary performance of SMEs in Kwale region. As displayed in the table over; the assertion on: The recurrence of preparing programs presented by the MF is adequate had a mean of 3.1610; Training on administration abilities presented by the MF is adequate to the business had a mean of 4.2300; Training on record keeping by the MF is fundamental for the business had a mean of 3.4870; Loan management training has helped business reduce default rates had a mean of 4.6400 while Training on investment has helped SME owners expand their business had a mean of 3.9012.

4.4.3 Micro-Savings

The study tried to set up the impact of Micro-investment funds on monetary execution of SME in Kwale County. The descriptive analysis findings are as illustrated below;

Table 4.5: Micro-savings

Statement	Mean	
Std.dev		
The minimum savings allowed by the MF is within reach- of small business owners	3.3000	1.12013
The loan cost on reserve funds presented by the MF is appealing to small businesses	4.1140	0.92080
MF separate saving accounts for personal and business money	3.8110	1.69032
Savings through MF mobile banking platforms is convenient to- the business	4.4127	1.79162
Micro savings are used as a measure of the amount of credit an- individual gets	4.2134	0.91243

Source: Survey data (2021)

As introduced over, the discoveries show that on normal mean of 3.3000 and 4.4127 respondents concurred that miniature reserve funds impact monetary performance. As displayed in the table over; the assertion on: The base investment funds permitted by the MF is reachable for entrepreneurs had a mean of 3.3000; The financing cost on reserve funds presented by the MF is alluring to private companies had a mean of 4.1140; MF separate saving records for individual and business cash had a mean of 3.8110; Savings through MF versatile banking platforms is convenient to the business had a mean of 4.4127 while statement on Micro savings are used as a measure of the amount of credit an individual gets had a mean of 4.2134.

4.4.4 Micro-Insurance

The study tried to set up the impact of Micro-protection on monetary execution of SME in Kwale County. The descriptive analysis findings are as illustrated below;

Table 4.6: Micro-Insurance

Statement	Mean	Std.dev
Protection covers given by MF are fundamental to the business	4.2431	1.3345
The measure of premium expense paid to the MF is-reasonable	4.0412	1.1543
The compensation period for insurance is appropriate	4.3800	1.8572
Re-imburement from insurance companies has enable small-business recover their properties	4.1885	1.0234
Comprehensive covers protect small businesses from all-		

possible business risk	3.8912	0.9972
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Source: Survey data (2021)

As shown on the table above; on an average mean of 4.3800 and 3.8912, SME managers agreed that Micro-protection impacts monetary execution of SME in Kwale County. The assertion on; Insurance covers given by MF are vital for the business had a mean of 4.2431; The measure of protection charges paid to the MF is reasonable had a mean of 4.0412; The remuneration period for protection is fitting had a mean of 4.3800; Reimbursement from insurance companies has enable small business recover their properties had a mean of 4.1885 while comprehensive covers protect small businesses from all possible business had a mean of 3.8912.

4.6 Correlation analysis

Connection examination was done to set up the strength of the connection between the free factors i.e Customer relationship management, Leadership style driver, Change management style driver and Organization learning on performance of the Revenue Authority, Southern region Mombasa. The importance levels of the connections are displayed underneath;

Table 4.7: Correlation Analysis

	FP	MC	MT	MS	MI
FP	1				
Sig. (2-tailed)					
MC	.560**	1			
Sig. (2-tailed)	.012				
MT	.601**	.716**	1		
Sig. (2-tailed)	.003	.074			
MS	.695**	.806**	1.000**	1	
Sig. (2-tailed)	.0019	.0043	.0022		
MI	.651**	.522**	.806**	.606**	1

Sig. (2-tailed) .0031 .0026 .003 .004

Source: Research Data (2021)

Where

MC = Micro-credit

MT = Micro-training

MS = Micro-savings

MI= Micro-insurance

The results Presented above show a positive relationship between miniature credit, miniature preparing, miniature investment funds and miniature protection and monetary execution of SMEs in Kwale county.

4.7 Model Summary

Model summary was considered in this study to confirm the fitness of the regression model in explaining the relationships that exists between the study variables.

Table 4.8: Model Summary

Model	R	R-square	Adjusted R Square	Std error of estimate
1	.7962a	.6339	.5902	0.6125

Predictors: Micro-credit, Micro-training, Micro-savings, micro-insurance

Dependent: Financial performance

The regression model synopsis introduced in table 4.15 demonstrates the coefficient assurance R-square as 0.7962. The R-Squared is the fluctuation extent in the reliant variable that can be clarified by the autonomous variable. The R-Square can go from 0.000 to1.000, with 1.000 appearance an ideal fit that shows that each point is on the line. This suggests that every one of the four factors under this study cannot be ignored. In this case 63.4% is used to show the association identified by the analysis based on variables while the remaining percentage of 36.6% indicate that not all issues under study affect employee job satisfaction

4.8 Regression Analysis

Table 4.9: Regression Analysis

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig	Collinearity Statistics

	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.643	1.399		3.319	.000	-	-
MC	.271	.108	.301	2.509	.037	.880	1.136
MT	.356	.219	.423	1.626	.000	.972	1.029
MS	.599	.092	.651	6.498	.018	.892	1.121
MI	.458	.081	.503	5.654	.030	.789	1.021

Source: Research Data (2021)

Key;

MC: Micro-Credit

MT: Micro-Training

MS: Micro-Savings

MI: Micro- Insurance

From table 4.9 above, it tends to be seen that the study had a block of 4.643 which infers that when any remaining variables are held consistent at nothing, microfinance administration variety in monetary execution would be 4.643; Micro-Credit affects execution; Micro-Training impacts execution; Micro-Savings impacts execution and Micro-Insurance affects execution in light of the fact that their p-esteem are not exactly the basic p-worth of 0.05.

$$Y = 4.643 + 0.271X_1 + .356X_2 + .599X_3 + 0.458X_4$$

From the above results, it is concluded that a unit change in Micro-Credit impacts monetary execution by 0.271, a unit change in Micro-Training impacts monetary execution by .356, a unit change in Micro-Savings impacts monetary execution by .599 while a unit change in Micro-Insurance prompts 0.458 change in monetary execution.

4.9 ANOVA Analysis

As illustrated in the table below; the model had a P- value of $0.00 < 0.05$; hence fit in explaining the relationships between microfinance services and financial performance of SMEs in Kwale County. With an F value of 12.675 and P-value of 0.000 the model,

shows that the regression is significant and the variables have a positive influence on financial performance.

Table 4.10: ANOVA Model

Model	Sum of Square	df	Mean Square	F	Sig
Regression	18.826	9	2.0917	12.675	.000
Residual	62.112	190	0.3269		
Total	80.224	199			

Source: Survey data (2021)

- a. Dependent Variable: Financial Performance
- b. Predictors: (Constant), Micro-credit, Micro-training, Micro-savings and Micro Insurance

4.10 Discussion of findings

The study gives a comprehensive analysis of the study findings. The findings as illustrated in different sections above; based on a response rate of 73% from SME managers in Kwale county. In addition, information obtained from participants was tested for reliability and validity through a pilot test. It was established that research instruments were reliable (average Cronbach alpha of 0.741 for all variables and valid in both construct, face and content validity. An analysis of SME managers background information revealed that; majority of SMEs have operated for a period of more than five years; individuals preferred using their saving a source of capital for starting the business while source of capital for investment and expanding is retained earnings and loans.

An analysis on the connection between miniature credit presented by microfinance and monetary execution of little and medium ventures in Kwale set up a positive relationship. On normal mean of 3.1100 and 4.4201 respondents concurred that miniature credit impacts monetary performance of SMEs in Kwale county. Respondents pointed out easy access of credit with a mean of 3.9000; Meeting of financial needs by amount provided with a mean of 4.3200 and provision of short term loans that meet emergency situations with a mean of 4.4201 were indicated as the main factors that contributed to improved

financial performance of SMEs in Kwale county. Inferential analysis obtained Pearson connection co-effective of 0.560 and meaning of 0.012 while relapse examination gave a co-proficient of 0.271 and meaning of 0.037. These discoveries demonstrated that miniature credit emphatically and altogether impacts the monetary presentation of little and medium endeavors in Kwale region. The concentrate emphatically identifies with that of Monge (2016) who assessed the impact of miniature credit on the monetary exhibition of Small and Medium Enterprises in Temeke region, Dar-es-salaam Tanzania. Study discoveries uncovered accessibility of microfinance administrations helped in the improvement of little and medium enterprise profitability.

An analysis on the relationship between micro-preparing presented by microfinance foundations and monetary execution of little and medium ventures in Kwale set up a positive relationship. On normal mean of 3.1610 and 4.6400 respondents concurred that miniature preparing impacts monetary performance of SMEs in Kwale province. Respondents called attention to adequacy of preparing on administration abilities with a mean of 4.2300 and Loan the executives preparing as the fundamental variables adding to worked on monetary execution of SMEs in Kwale County. Inferential investigation got Pearson relationship co-effective of 0.601 and meaning of 0.003 while relapse examination gave a co-productive of 0.356 and meaning of 0.000. These discoveries demonstrated that miniature preparing given by microfinance in Kwale County emphatically and altogether impacts the monetary presentation of little and medium undertakings in Kwale area. The discoveries of the concentrate decidedly identify with that of Mutuma and Omagwa (2019) which was done a study to decide the nature and level of meaning of the connection between administrations presented by microfinance organizations on monetary efficiency of SMEs enlisted and working in the district of Meru. The exploration observed the arrangement of microfinance administrations to have a positive relationship with monetary execution of little and medium ventures in Meru County.

An analysis on the relationship between micro-savings offered by microfinance and monetary execution of little and medium ventures in Kwale set up a positive relationship. On a normal mean of 3.3000 and 4.4127 respondents concurred that micro-savings

influence financial performance. Respondents pointed out attractive interest rate on savings with a mean of 4.1140 and convenient savings through MF mobile banking platforms with a mean of 4.4127 as the main factors contributing to improved financial performance. Inferential analysis obtained Pearson connection co-effective of 0.695 and meaning of 0.019 while relapse investigation gave a co-productive of 0.599 and meaning of 0.018. These discoveries demonstrated that miniature reserve funds given by microfinance organizations in Kwale County emphatically and fundamentally impacts the monetary presentation of little and medium endeavors in Kwale district. The discoveries emphatically identify with that of Ismail (2017) whom investigated on the effect of microfinance administrations by microfinance foundations on the presentation of SMEs in Kilifi County. The study set up that microfinance benefits fundamentally and emphatically impact the monetary exhibition of SME.

An analysis on the relationship between micro-insurance offered by microfinance and monetary execution of little and medium ventures in Kwale established a positive relationship. On an average mean of 4.3800 and 3.8912, SME managers agreed that Micro-insurance influences financial performance of SME in Kwale County. Respondents indicated provision of essential insurance covers with a mean of 4.2431 and favourably compensation period with a mean of 4.3800 as the main factor contributing to improved financial performance. Inferential analysis obtained Pearson connection co-proficient of 0.651 and meaning of 0.0031 while relapse examination gave a co-effective of 0.458 and meaning of 0.030. These discoveries demonstrated that miniature protection given by microfinance in Kwale County decidedly and essentially impacts the monetary presentation of little and medium ventures in Kwale area. The discoveries marginally contrast to that of Masini (2015) which was investigated the effect of miniature money foundations on monetary efficiency of independent companies in Machakos. The results showed that MFI products offered had a solid positive connection with financial performance of SMEs while pointed an insignificant positive relationship between micro-insurance and financial performance of SMEs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This part covers the synopsis of discoveries, end, proposals, constraints and idea for future examinations.

5.2 Summary of Research Findings

5.2.1 Micro-Credit

The study discoveries set up a solid positive huge connection between miniature credit administrations presented by microfinance and monetary execution of little and medium undertakings in Kwale established. It was further established that, easy access of credit, meeting of financial and provision of short term loans that meet emergency situations

were the main factors that contributed to improved monetary execution of SMEs in Kwale region. The concentrate emphatically identifies with that of Monge (2016) who assessed the impact of miniature credit on the monetary presentation of Small and Medium Enterprises in Temeke region, Dar-es-salaam Tanzania. Study discoveries uncovered accessibility of microfinance administrations helped in the improvement of little and medium enterprise profitability.

5.2.2 Micro-Training

The study discoveries set up a solid positive critical connection between miniature preparing presented by microfinance and monetary execution of little and medium undertakings in Kwale. It was additionally settled that adequacy of preparing on administration abilities and Loan the board preparing as the primary elements adding to worked on monetary execution of SMEs in Kwale County. The discoveries of the concentrate emphatically identify with that of Mutuma and Omagwa (2019) which was completed a study to decide the nature and level of meaning of the connection between administrations presented by microfinance organizations on monetary usefulness of SMEs enlisted and working in the region of Meru. The examination observed the arrangement of microfinance administrations to have a positive relationship with monetary execution of little and medium endeavors in Meru County.

5.2.3 Micro-Savings

The study findings established a strong positive significant relationship between micro-savings presented by microfinance and monetary execution of little and medium undertakings in Kwale. It was further established that; attractive interest rate on savings and convenient savings through MF mobile banking platforms were the main factors contributing to improved financial performance. The findings positively relate to that of Ismail (2017) whom researched on the effect of microfinance administrations by microfinance establishments on the exhibition of SMEs in Kilifi County. The study established that microfinance services by the microfinance institutions significantly and positively influence the monetary execution of SME.

5.2.4 Micro-Insurance

The review findings established a strong positive significant relationship between micro-insurance presented by microfinance foundations and monetary execution of little and medium undertakings in Kwale. It was further established that, provision of essential insurance covers and favourably compensation period were the main factor contributing to improved financial performance. The findings slightly differ to that of Masini (2015) which was researched the effect of miniature money establishments on monetary usefulness of independent ventures in Machakos. The outcomes showed that MFI items offered had a strong positive association with monetary performance of SMEs while pointed a unimportant positive connection between miniature protection and monetary performance of SMEs.

5.3 Conclusion

Study discoveries set up: a solid positive connection between miniature credit and monetary execution of SMEs in Kwale County; a solid positive connection between miniature preparing and monetary execution of SMEs in Kwale County; a solid positive connection between miniature protection and monetary execution of SMEs in Kwale County and a solid positive connection between miniature investment funds and monetary execution of SMEs in Kwale County. It accordingly presumed that; microfinance emphatically impact the monetary presentation of little and medium undertakings in Kwale County.

Furthermore, it was reasoned that; easy access of credit, meeting of financial and provision of short term loans that meet emergency situations; sufficiency of training on management skills and Loan management training; attractive interest rate on savings and convenient savings through MF mobile banking platforms and provision of essential insurance covers and favourably compensation period were the main factor contributing to improved Monetary execution of SMEs in Kwale County.

5.4 Recommendations

Albeit the study set up a positive connection between microfinance administrations and monetary execution of SME in Kwale, there is need for development in a number of areas to better improve the microfinance services in Kwale county. As the study recommends for training of SME managers on the various loans offered by microfinance institutions

so that they can choose wisely based on the need and ability to repay to discourage loan defaults. The study also recommends for continuity of training to ensure that SME managers are able to carry their businesses through all business cycles, it was noted that training services are offered only when a customer seeks credit. Furthermore, microfinance managers should also encourage SME to save more with them so that they can be liquid and buy shares in the financial institutions and discourage savings as a basis of acquiring a loan. Lastly, microfinance managers should educate their customers on the importance of insurance into their businesses, during the study many respondents indicated that they take insurance but see it as a liability as they do not claim funds contributed.

5.5 Suggestions for Further studies

The study findings covered only 63.4% as indicated by r-square in the model summary while 36.6% of other factors affecting financial performance of SME in Kwale county were not covered, a study should therefore be conducted out to identify the other variables affecting financial performance of SMEs in Kwale. Furthermore, a study should be done on large firms within the county to understand how microfinance within Kwale influence their financial performance. Lastly, similar studies as suggested for SME and large firms should be done in different districts the nation over to analyze if comparative discoveries will be established.

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Appendix 1: Introduction Letter

Dear: Sir/ Madam

REF: DATA COLLECTION

As stated above, I request for your help in providing information for my research which seeks to identify the effect of micro-finance on financial performance of MSE in Kwale county. The purpose of this letter is to request you to provide information by filling the

questions provided. Kindly note that the information you will provide will be used for academic purposes only.

Your Faithfully

Khaliga Salim

Appendix ii: Questionnaire

This questionnaire seeks to information on the effect of micro-finance on financial performance of SME's in Kwale County. Data will be used for the purpose indicated in this study and confidentiality will be highly maintained and personal comments of the respondents expunged from our analysis. Please take your time and answer the questions that follow; please tick (√) or provide your own answers where applicable.

i. Length of operating business

0-4 years ()

5-10 years ()

10-15 years ()

ii. What was the source of your starting capital?

Savings ()

Loan ()

Friends and family contributions ()

Lease of property ()

Other ()

iii. What was the major source of financing additional capital?

Retained profits ()

Loans and retained earnings ()

Loans only ()

Section B: Questions based on study Objectives

i. Micro-Credit

Please rate the statements given in the table below to the best of your understanding. 5 = Strongly Agreed; 4 = Agreed; 3= Neutral; 2; Disagreed and 1 = Strongly Disagreed.

Statement	1	2	3	4	5
1. Credit is easily accessible from MF					

2. Loan amount provided by MF meet SME business needs					
3. Medium term loans offered enable SME owners to invest in profitable opportunities					
4. Short term loans offered help in meeting emergency situations					
5. The collateral required for loans is within reach of most SME owners					

ii. Micro-Training

Please rate the statements given in the table below to the best of your understanding. 5 = Strongly Agreed; 4 = Agreed; 3= Neutral; 2; Disagreed and 1 = Strongly Disagreed.

Statement	1	2	3	4	5
1. The frequency of training programs offered by the MF is sufficient.					

2. Training on management skills offered by the MF is sufficient to the business.					
3. Training on record keeping by the MF is essential for the business.					
4. Loan management training has helped business reduce default rates					
5. Training on investment has helped SME owners expand their businesses					

iii. Micro-Savings

Please rate the statements given in the table below to the best of your understanding. 5 = Strongly Agreed; 4 = Agreed; 3= Neutral; 2; Disagreed and 1 = Strongly Disagreed.

Statement	1	2	3	4	5

1. The minimum savings allowed by the MF is within reach of small business owners					
2. The interest rate on savings offered by the MF is attractive to small businesses					
3. MF offered separate saving accounts for personal and business money					
4. Savings through MF mobile banking platforms is convenient to the business					
5. Micro savings are used as a measure of the amount of credit an individual gets					

iv. Micro-Insurance

Please rate the statements given in the table below to the best of your understanding. 5 = Strongly Agreed; 4 = Agreed; 3= Neutral; 2; Disagreed and 1 = Strongly Disagreed.

Statement	1	2	3	4	5
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1. Insurance covers provided by MF are essential to the business					
2. The amount of insurance premiums paid to the MF is affordable.					
3. The compensation period for insurance is appropriate.					
4. Re-imburement from insurance companies has enable small business recover their properties					
5. Comprehensive covers protects small businesses from all possible business risk					

APPENDIX iii: SECONDARY DATA SHEET

Item	2016	2017	2018	2019	2020
Return on Equity	10.9%	11.7%	11%	10.8%	6.6%
Cash flow adequacy ratio	26.54%	30%	32.52%	33.25%	34.1%
Combined ratio	42.17%	33.89%	27.64%	23.05%	25.81%