

**EFFECTS OF MICROFINANCE SERVICES ON THE FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN
ELGEYO MARAKWET**

BY

BEVLYN CHERONO TANUI

D61/22813/2019

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE IN MASTER OF
BUSINESS ADMINISTRATION IN THE SCHOOL OF BUSINESS, UNIVERSITY
OF NAIROBI.**

NOVEMBER, 2021

DECLARATION

I declare that this theis is my original work and has not been submitted in any other university for consideration.

Signature... 

Date...27/09/2021...

Bevlyn Tanui

D61/22813/2019

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

Signature 

Date 30/11/2021

Dr. Herrick Ondigo

Department of Finance and Accounting

University of Nairobi

DEDICATION

I dedicate this project to my family for their continued support during my studies. For that I say, may the Almighty God bless you abundantly

ACKNOWLEDGEMENT

I acknowledge my Supervisor Dr. Herrick Ondigo for guiding me throughout the research work and development of this. I also acknowledge my family and friends the continued support and encouragement to this far. May the Almighty God bless you.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	ii
ACKNOWLEDGEMENT	iii
LIST OF TABLES	vii
LIST OF FIGURES	viii
ABBREVIATIONS AND ACRONYMS	ix
ABSTRACT	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Microfinance Services.....	3
1.1.2 Financial Performance of SMEs	4
1.2 Research Problem.....	5
1.3 Research Objectives.....	6
1.3.1 Specific Objectives	6
1.5 Value of the Study	6
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction.....	8
2.2 Theoretical Framework.....	8
2.2.1 Resource Based View Theory.....	8
2.2.2 Knowledge-Based Theory	9
2.3 Empirical Literature Review	10
2.4 Determinants of SMEs Financial Performance	12
2.5 Conceptual Framework.....	13
2.6 Summary of Literature Review	14
CHAPTER THREE	16
METHODOLOGY	16
3.1 Introduction.....	16

3.2 Research Design	16
3.3 Target Population	16
3.4 Sample Size Determination.....	16
3.5 Sampling Methods and Procedures	17
3.6 Data Collection Methods	17
3.7 Validity and Reliability Analysis	17
3.7.1 Validity Analysis	17
3.7.2 Reliability Analysis.....	17
3.8 Data Analysis Methods and Procedures.....	18
CHAPTER FOUR	20
DATA ANALYSIS AND PRESENTATION	20
4.1 Introduction.....	20
4.2 Response Rates.....	20
4.3 Gender of the Respondents	21
4.3.1 Age of the Respondents.....	21
4.3.2 Education Level	22
4.3.3 Form of Business Ownership.....	23
4.3.4 Sector of Operation	23
4.3.5 Duration of Operation	24
4.4 Microfinance Lending Services and SMEs Performance	25
4.5 Microfinance Savings Services and SMEs Performance	28
4.6 Microfinance Training Services and SMEs Performance	30
4.7 Inferential Analysis.....	34
4.8 Discussion of the Findings	35
CHAPTER FIVE	37
SUMMARY, CONCLUSION AND RECOMMENDATIONS	37
5.1 Introduction.....	37
5.2 Summary of the Findings.....	37
5.2.1 Microlending Services and Financial Performance of SMEs	37

5.2.3 Microfinance Savings Services and SMEs Performance.....	38
5.2.3 Microfinance Training Services and SMEs Performance	38
5.3 Conclusion	39
5.4 Recommendations	40
5.5 Suggestions for Further Studies.....	40
References.....	41
Appendix I: Research Questionnaire	46

LIST OF TABLES

Table 4.1:Response and non-response rates	20
Table 4.2:Education	22
Table 4.3:Descriptive Statistics for microfinance lending services.....	28
Table 4.4: Descriptive analysis of microfinance savings services.....	30
Table 4.5:Descriptive Statistics for micro training services.....	33
Table 4.6:Model summary.....	34
Table 4.7:ANOVA.....	34
Table 4.8:Coefficients table.....	35

LIST OF FIGURES

Figure 2.1:Conceptual Model	14
Figure 4.1: Gender of the respondents	21
Figure 4.2:Distribution of the respondents by age.....	22
Figure 4.3:Form of business ownership	23
Figure 4.4:Sector of operation	24
Figure 4.5:Duration of operation	25
Figure 4.6:Benefiting from MFIs loans.....	26
Figure 4.7:Use of MFIs loans	27
Figure 4.8:reasons why the SMEs took loans.....	27
Figure 4.9:Benefits from MFIs saving services.....	28
Figure 4.10: Microfinance saving services and SMEs growth.....	29
Figure 4.12:Benefits from MFIs training services	31
Figure 4.13: Extent to which MFIs training improve the profitability of the businesses,	32

ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
MFI s	Microfinance institutions
NACOSTI	National Commission for Science, Technology, and Innovation
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Returns on Equity
ROI	Returns on Investments
SPSS	Statistical Package for Social Sciences

ABSTRACT

SMEs play a crucial role in the social, economic development across the globe. However, the growth of these enterprises is constrained by various challenges such as insufficient resources, poor financial and managerial skills, and other factors. Microfinance institutions have emerged to offer solutions to the SMEs to enable them record good financial performance. In Elgeyo Marakwet County, the microfinance services have become crucial for the SMEs. However, based on the existing evidence, limited research has focused on the role of MFIs on SMEs. Therefore, this study sought to determine the role of microfinance services SMEs in Elgeyo Marakwet. The study sought to determine how microfinance lending services, savings services, and training services affect SMEs performance in Elgeyo Marakwet County. A descriptive research design was used in this study. The target population included all the SMEs in Elgeyo Marakwet. The sample size comprised of 237 SMEs selected from various sectors. Primary data was collected using questionnaires while secondary data was collected from existing business records, business journals, and other relevant publications. The data was analysed using SPSS. The descriptive analysis helped to give a description of the respondents and the businesses. Inferential analysis on the other hand was used to determine the relationship between the independent variables and the dependent variables. This was done using regression analysis method. Based on the analysis, microfinance services explain 752 % variation in the performance of the SMEs in Elgeyo Marakwet as indicated by $R^2 = 0.752$. Micro lending services had statistically significant contribution to SMEs performance as the p value obtained (Sig.=0.001) is less than 0.05. This implies that the more the SMEs seek loans from the MFIs the higher the chances of the businesses to record good performance. Micro savings services had statistically significant contribution to SMEs performance as the p value obtained (Sig.=.038) is less than 0.05. This implies that the more the SMEs embrace the MFIs savings the higher the chances of the businesses to record good performance. Microfinance training services had statistically significant contribution to SMEs performance as the p value obtained (Sig.=017) is less than 0.05. This implies that the more the SMEs owners undergo the training the higher the chances of the businesses to record good performance. Based on the analysis, the study recommended the MFIs to educate the SMEs and increase awareness on the importance of taking the microfinance loans in order to expand their businesses. The MFIs are also recommended to embrace and increase savings and to intensify their training program in order to benefit the SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium Enterprises play an essential part in a country's economy, and as a result, their numbers have risen dramatically worldwide since the 1960s (El Madani, 2018). These businesses are recognized as effective and prolific job creators, they are seeds of large corporations and they are key drivers of national economic (Kayanula & Quartey, 2012). In Europe, these enterprises are important economic drivers, contributing significantly to GDP. In Poland, for example, these enterprises account for almost half of the GDP and are a major source of employment and revenue (Woniak et al, 2019). In the US, these enterprises account the highest proportion of ventures and have a huge contribution to the GDP.

In Asia, the SMEs make up more than 98% of all businesses, providing about 50% of employment. Besides being a key source of employment, these enterprises contribute significantly to the GDP of most nations in the country. These enterprises contribute about 17% to national GDP in the low-income nations such as India to approximately 40 to 50% in the higher income nations such as Malaysia and Singapore. In China, SMEs makes up more than 98.64% of all firms and contributes over 60% of total GDP, 50% of tax income, 75% of job creation and 68% of exports (Jia, Tang & Kan, 2020). In Pakistan, the SMEs contributed about 30% to GDP, 25% exports and 78 per cent to industrial employment (Arshad et al, 2020).

In Africa, SMEs have emerged as important contributors to economic growth. In Ghana, for example, SMEs account for over 92 percent of firms, provide roughly 70 percent of the country's GDP, and employ over 80 percentage (Selase et al, 2019). These businesses operate in both rural and urban areas, providing employment to a huge proportion of people. Some of them are well-structured and others are not organized. The structured ones normally have offices and paid personnel, whereas the disorganized ones are made up of artisans who work in open spaces, temporary wooden buildings, or at their homes (Donkor et al, 2018).

In South Africa, SMEs make up more than 91% of formal enterprises, contribute significantly to the country's GDP, and provide over 61% of employment (Epho & Mafini, 2018). In Uganda, like in any other country, the majority of businesses, fall into the SMEs group. These enterprises

are found in all economic sectors and make up around 90% of the private sector. They produce over 80% of the output in the manufacturing sector and their contribution of the GDP is about 75%. The non-farm sector offer employment to more than 2.5 million people, accounting for 90 percent of all non-farm employment (Uganda Business Impact Survey, 2020).

In Tanzania, SMEs forms a major economic contributor. It is estimated that Tanzania's SME sector consists of more than 3 million enterprises which contribute about to 35% of overall GDP (Richard & Kabala, 2020). In Kenya, the SME sector is extremely important and contributes greatly to the country's economic development. As a result, these businesses have increased considerably, and they account for about 75% employment. Also, the sector contributes around 18.4% of the national GDP. Currently, more people are delving into the SMEs sector as a means of reducing unemployment, lowering poverty rates, and raising living standards in the country (Nyakundi, 2018). In Elgeyo Marakwet, which is the focus of the study, SMEs are a key source of livelihood.

Based on the foregoing, it is evident that SMEs have significant economic contribution and are a key source of livelihood. While these businesses play a key role in steering the economies in most nations, they face numerous challenges such as lack of access to funding, poor business skills, poor financial management among other challenges. Therefore, the government and other stakeholders have been instituting measures and policy frameworks to promote the growth of the SME sector. Among the institutions that play an important role in promoting the SMEs are the microfinance institutions (Matamanda & Chidoko, 2017).

The influence of microfinance services on the financial performance of SMEs is anchored on Resource based view theory by Barney's (1991) and knowledge-based theory by Penrose (1959). The resource-based view theory forms a basis for good organizational performance which enables the firm to outdo other firms in the industry based on its ability to use the resources it has. Regarding the SMEs, resource-based view theory accentuates the need for the SMEs to utilize their resources effectively to boost the financial performance. With finance being a key resource, the microfinance loans offered by MFIs are considered as key resources that the SME can utilize to boost their financial performance. Knowledge-based theory underscores the importance of knowledge in improving the productivity among the small businesses and the economy in general (Romer, 2001). In this study, the theory underscores the importance of

training services offered by the MFI to the SMEs as it imparts to the SMEs owners key knowledge and skills that the use to run their businesses efficiently.

1.1.1 Microfinance Services

The microfinance institutions have emerged as key support systems for SMEs particularly in the developing economies. Microfinance institutions offer numerous services to the SMEs. Microfinance loans are some of the services offered to the SMEs. These are small loans given to small scale traders which they can repay over a short period in small installments without the guarantee of collateral. The credits are given in the form of group lending, progressive, and short loans (Moussa, 2020). The micro-credits enable the businesses to purchase productive assets and to run their operations. If well utilized, the loans can help to boost the performance of the businesses.

Another service offered by the MFIs business training. This is training offered by microfinance institutions to small scale business to enhance their financial literacy, business management, customer relations among other areas. It is worth noting that lack of entrepreneurial and financial management skills are key problems faced by small scale traders (Lusweti & Mwasiagi, 2020). As a result, many micro-finance institutions have found it useful to provide training to equip the small-scale traders with skills to run their businesses. The training is offered in the form of pre-loan training, post loan training, business management, and financial management. Such skills if well implemented would contribute to the performance of the businesses.

Micro saving is another service offered by the MFIs. These are platforms offered by microfinance institutions to small scale traders to enable them to make small savings regularly (Ayub et al, 2020). Such savings accounts do not have a minimum balance, or the minimum balance is very low to encourage the small-scale traders to save. This service helps to safeguard the funds of the small business owners and control their money consumption habits. The MFIs also offer the SMEs insurance services. Microfinance institutions have discovered that occurrences such as health crises are some of the primary reasons small scale traders get into financial crisis and in instances make them default on their loans. The microfinance institutions have therefore come up with various micro-insurance policies to help the business owners in such cases. The microfinance institutions offer these policies in the form of pension, house insurance, health insurance, and asset insurance.

The MFI services the current study focuses on are microfinance savings services, microfinance lending services, and microfinance business training and education services. Regarding savings, this study will focus on savings mobilization, and table banking offered by the MFIs to encourage the SMEs to increase savings. Regarding lending services, the study will focus on the group lending, progressive loans, and short loans offered by the MFIs to the SMEs. Regarding training services, the study will focus on financial management training, business management training, and customer relations training.

1.1.2 Financial Performance of SMEs

The performance of a firm is the actual production obtained in comparison with the outlined business goals. This can be evaluated using financial and non-financial methods. Financial performance is a subjective evaluation of a company's ability to generate revenue from its primary method of operation (Singhania & Saini, 2018). It can also be used to compare similar firms operating in the same sector. This method usually uses accounting ratios. Some of the most widely used ratios include Return on Assets (ROA), Return on Investments (ROI), Return on Capital Employed (ROCE), and Returns on Equity (ROE).

Return on Investment (ROI) is a metric that compares a company's profitability to its total assets (Suardana, Astawa, & Martini, 2018). It refers to the firm's ability to generate revenue from its assets. This ratio is obtained by dividing the firm's annual earnings by its total assets. Return on Investments (ROI) is a statistic that is used to evaluate the effectiveness of a particular investment and to compare the effectiveness of various investments (El-Halwagi, 2017).

Return on Capital Employed (ROCE) measures the efficiency and profitability of a firm's capital investment. This metric is among the most important ratios that are utilized by a firm to measure profitability. It's expressed as a percentage and can reveal a lot about a firm's industry, management competencies, and, on rare instances, the overall business climate (Das, & Swain, 2018). A business with a high return on capital invested is likely to be lucrative in general. Returns on Equity ratio is the percentage of net income gained by the business owner from the capital invested in the business. The greater the company's profit margin, the higher the profit margin it generates.

In this study, the financial performance of the SMEs was measured in terms of profitability, cash flows, sales revenue, and turnover. The financial performance of the SMEs was based on the

perceptions of the owners and managers as these businesses usually do not compute the financial ratios and most of them usually have incomplete financial records.

1.2 Research Problem

SMEs form the biggest proportion of business ventures and cut across all economic sectors. These ventures offer a prolific source of employment, income, and government revenue, and they contribute a lot to poverty reduction (Robu, 2013). The SMEs also provide goods and services, promote competition and innovation, and enterprising culture. The sector provides goods and services, promotes competition, innovation, and enterprising culture. However, despite the significance of these businesses, they face numerous challenges. As a result, many of them continuously record poor performance, while others close after a short time in operation (Abisuga-Oyekunle, Patra, & Muchie, 2020).

In Kenya, most SMEs face challenges in accessing funds what curtails the scope of their operations. The businesses are also affected by poor management, poor infrastructure, inadequate support from the government, and other relevant stakeholders, among other challenges. In Elgeyo Marakwet, the SMEs face a myriad of challenges, key among them including lack of funding sources and poor business management. According to Cheruiyot (2020), despite the key role of SMEs in the county, the County government and other stakeholders do not support them and facilitate their funding. This retards their sales growth and performance.

As a result of the numerous challenges faced by the SMEs, there has been a need for strategies to be put in place to enable the business to flourish. Ideally, microfinance is one of the practical strategies and approaches that have emerged to support SMEs in the county. They do this by offering them saving services, lending services, and business training services (Cheruiyot, 2020). However, the role of these services on the SMEs' performance is still unclear and hence the need for this study. Of the studies done on SMEs in the Elgeyo Marakwet, Cheruiyot (2020) only analysed the effects of financial perspective as a determinant of performance of the SMEs and did not focus on the role of SMEs. In another study, Maiyo (2016) analysed the role of services offered by MFIs on the Growth of SMEs in Elgeyo-Marakwet County. However, the studies only focused on insurance services and training services and how they influence the performance of the SMEs. The study did not focus on other crucial services offered by the MFIs including microfinance savings services and lending services.

In another study Ahiabor (2013) analyzed the role of microfinance services on SMEs in Ledzorkuku-Krowor Municipal Assembly in Ghana. The study was conducted in different geographical settings and the findings cannot be generalized to the SMEs in Elgeyo Marakwet. Another study was conducted by Makorere, (2014) to determine the role of MFI services on the growth of the SMEs in Morogoro, Tanzania. The study was conducted in different geographical settings and therefore, the findings are only limited to the SMEs in Morogoro. Locally, Kibichii and Wafula (2020) studied the effects of microfinance services on the growth of SMEs operating in Nairobi. The study was conducted in a different geographical setting and the findings cannot be generalized in the case of SMEs in Elgeyo Marakwet. Other studies were conducted by Omwansa (2015), Amsi et al (2017), Ismail and Atheru (2017), Chole (2017), Ruathdel (2020), Omondi and Jagongo (2018), Kipsang (2016) and Kibet, Achesa and Omwono (2015). All these studies were conducted in different contexts and the findings are not applicable in Elgeyo Marakwet. Based on the existing literature, there is a research gap, hence the rationale of this study. Therefore, the study sought to answer the following research question; how do microfinance services influence the financial performance of SMEs in Elgeyo Marakwet County, Kenya?

1.3 Research Objectives

The general objective of the study was to determine the effect of microfinance services on the financial performance of SMEs Elgeyo Marakwet County, Kenya

1.3.1 Specific Objectives

1. To determine the influence of microfinance savings services on the financial performance of SMEs in Marakwet County, Kenya.
2. To determine the effect of microfinance lending services on the financial performance of SMEs in Marakwet County, Kenya.
3. To analyze the influence of microfinance business training and education services on entrepreneurship development in Elgeyo Marakwet County, Kenya.

1.5 Value of the Study

The study is significant in various ways. First, the study will shed light to the SMEs owners on the role the microfinance services play in promoting SMEs' performance. This will compel a

larger number to seeks savings services, micro loans, training services and other services offered by the MFIs to improve their financial performance. Secondly, the study will benefit policy makers in the micro finance sectors, the government and other parties that work towards promoting the SMEs. The study will guide the Microfinance institutions in the formulation of policies and strategies meant to minimize the limitations hindering smooth service delivery to the SMEs. The findings will enhance knowledge on the importance of MFIs and their notable contribution to the SMEs. The study will therefore be useful to the government and other stakeholders which will increase their support to the SMEs through the MFIs. Thirdly, the study will be beneficial to scholars and academicians as it will add to the body of knowledge on the role MFIs play on SMEs. The study will be a key reference source to other researchers and academicians with interest in studying the role of MFIs to the SMEs. The study will also suggest other research areas, offering a key foundation for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews the literature on the impact of microfinance services on the SMEs performance. The chapter covers the theoretical framework of the study, the empirical literature review and the conceptual framework indicating the variables and their relationships.

2.2 Theoretical Framework

2.2.1 Resource Based View Theory

The Resource Based View theory was developed by Barney's (1991). This theory is underpinned by the concept of economic rent and views a firm as a collection of skills (Barney, 2001). This theory forms a basis for good organizational performance which enables the firm to outdo rivals based primarily on its ability to utilize the various resources it has. The Resource Based View theory helps to explain the influence of a resource on business performance (Kull, Mena & Korschun, 2016). According to the theory, for a firm to create and sustain its position in the market and to out-performance competitors, it requires to have valuable resources that enable them to employ suitable strategies or to minimize its own weaknesses. These resources should not be easily available and should be in-imitable to make it hard for the rivals to emulate. The SMEs with the capacity to get and utilize these resources well can record superior performance and achieve competitive positions in the market.

Resource based theory is criticized widely as it mostly focuses on the relevance of power, structures, and process in a firm with the purpose of controlling resources. The theory does not focus on factors such as costs and efficiency when explaining firm behavior (Nothnagel, 2008). Also, the theory fails to state the conditions the firms need to adapt, resist, and change the environment in which they are based. In addition, the theory fails to specify what happens to the powers to the firms if they discontinue contributing to securing resources and organizational goal.

The resource-based theory was used in this study as it accentuates the need for the SMEs to effectively utilize resources in order to boost the financial performance of SMEs. In this study, the microfinance lending loans offered by the MFIs are considered as financial resources which

contribute to the financial of the SMEs. Also, it is worth noting that personal savings is a key source of financial for SMEs as a large number of them do not have access to funds from other sources such as banks. Therefore, by promoting the culture of savings, the MFIs help to ensure the SMEs have financial resources that they can use to finance their businesses. This theory therefore anchors the objective on the influence of lending services and savings services offered by MFIs on the SMEs performance.

2.2.2 Knowledge-Based Theory

This theory was developed by Penrose (1959). The theory was later improved by Conner (1991) and Barney (1991). This theory underscores the importance of knowledge in improving the productivity among the small businesses and the economy in general (Romer, 2001). In this regard, the theory holds that, an economy, and businesses with highly skilled and learned individuals are more likely to record better performance as compared to those that do not have these aspects. In relation to this, the theory argues that well trained, skilled and educated business owners are able to apply the skills and knowledge to develop increase efficiency in their operations, to increase productivity and take risks and to foster innovativeness (Timmons, 1999).

The knowledge-based theory creates a distinction between two types of learning based on the context within which the learning takes place. One of the learning types is explorative learning which in the context of small businesses only occur through internal experiments (Zahra, Nielsen, & Bogner, 1999). This form of learning is experiential in nature. The other form of learning is exploitative learning which occurs externally to the businesses. From a strategic perspective, business owners and managers who have been well trained and equipped with business skills can easily make the right business decisions as compared to those with no skills (Hart, 1992). This decision can easily show the difference between the low performing and the better performing businesses (Hart, 1992).

The knowledge-based theory has gained increased popularity and hold great promise in strategic management. However, the theory is however criticized that it presents a naïve idea of knowledge as a source of sustainable competitive advantage. According to Kaplan et al (2001), knowledge is also a double-edged sword which implies that although the benefits of knowledge are immediate and easily recognizable, the costs related to rigidity, failure of appropriation, and change are more subtle, less transparent, and intimately tied to social processes.

The Knowledge based theory was considered relevant and applicable in this study and anchors the objective on the role of MFIs training services on the SMEs. This theory is suitable as it creates insights on how the small and medium scale business owners in Elgeyo Marakwet can use the skills and knowledge they get from the MFI training to position their businesses and to record performance. It is hypothesized that the training services help to impart to the SMEs owners key business management skills, financial management skills and customer relations skills which in turn help to improve their performance.

2.3 Empirical Literature Review

Extensive research has been done to determine the impacts of lending services offered by MFIs on the financial performance of SMEs. For instance, Ameer and Jamil (2013) analyzed the efficiency and effectiveness of microfinance credit facilities on SMEs performance in Pakistan. Data for this study was collected using questionnaires and analyzed using regression analysis methods. Based on the analysis, the study discovered that microfinance loans advanced to SMEs had significant contribution to their growth and performance. In another study, David (2017) sought to analyse the effect of MFIs services on SMEs performance in Zaria Metropolis in Nigeria. The study was conducted among 300 SMEs which operated with Cred Microfinance bank. The study discovered that the services offered by the microfinance institution contributed to the performance of the business.

Ahiabor (2013) analysed the role of microfinance services on SMEs in Ledzorkuku-Krowor Municipal Assembly in Ghana. The findings of the study demonstrated that SMEs were more aware of the existence of MFIs and recognized the favorable benefits of MFI loans in promoting growth of their businesses. In another study conducted in Tanzania by Makorere, (2014) on the role of MFI services on the growth of the SMEs in Morogoro, the findings indicated that the microfinance services contributed to the growth of the firms. The study documented that the growth of the SMEs increased their capacity to create more jobs, helped to boost their sales, profitability, among other benefits.

Locally, Kibichii and Wafula (2020) studied the effects of microfinance services on the growth of SMEs operating in Nairobi and identified that the services offered by the MFIs contributed to the growth of the enterprises. The study identified that through the provision of microfinance loans, they have helped the SMEs to grow. This is because, the loans offered to the businesses

enabled them to expand their operations. In another study conducted by Omwansa (2015) among SMEs in Machakos Town, the findings indicated that the services offered by MFIs contributed greatly to the growth and performance of the SMEs.

Amsi et al (2017) sought to find out the role the MFIs play to the SMEs in Kenya. Based on the results, it emerged that the microfinance credit services offered by the MFIs had an effect on the SMEs financial performance. This is because, the credit financing enabled the businesses to diversify and venture into different lines of business, hence expanding their businesses. Based on the findings, the SMEs highly benefited from the lending services since the lending terms were friendly considering the inability to the SMEs to give collateral for the bank loans.

Ismail and Atheru (2017) studies the role of the MFIs on SMEs operating in in Kilifi Town and identified that the MFI services offered to the SMEs contributed greatly to the performance and growth of the firms. Specifically, lending services and financial training offered to the business owners greatly contributed to the SMEs performance. The credit services offered to the businesses enabled them to expand their operations while the financial literacy offered through training helped the SMEs owners to manage their operations as well as the finances.

Chole (2017) conducted a study on the role of MFIs on SMEs in Kariobangi light industry in Nairobi and established that the saving and loan services have contributed to the growth and performance of the businesses. In regards to lending services, the SMEs owners reported that they prefer the MFI loans to the bank loans since getting a business loan from microfinance does not involved lengthy procedure, the business loan application process is easy to understand and follow, and that there are higher chances of the SMEs being granted MFI loans as compared to loans applied from the banks. Regarding saving services, the study established that they prefer MFI savings services as compared to saving with banks as it is easier to operate the saving account, no ledger fee is needed for MFI savings account and regular deposits are customer friendly. Regarding training services, the study found out that the training services offered by the MFIs helped the business owners to manage their business, to keep good customer records and to effectively manage their finances.

Ruathdel (2020) studies the role of MFIs on boda boda businesses in Nairobi County and identified that the MFI services offered to the SMEs contribute to their financial performance. Regarding lending services, the study established that the boda boda entrepreneurs prefer seeking

loans from the MFI as compared to banks there is no collateral need for the loans and that the loan terms and conditions are friendly to the entrepreneurs. The respondents also considered the MFI loans as better since the interest rates charged are relatively lower as compared to the rates charged by the banks.

In another study, Omondi and Jagongo (2018) analysed the effects of MFIs services on youth owned SMEs in Kisumu County and identified that the MFI services were very vital to the SMEs. It emerged that the ability of the firms to borrow and save with the MFIs increase the entrepreneurs' profits. The services also helped to enhance the ability of the businesses to manage their working capital. Regarding training services, the study concluded that the skills the SMEs owners get through the training programs enable them to manage their businesses well as well as managing their finances.

Kipsang (2016) conducted a study on the role of MFIs on the SMEs in Nakuru Town and identified that the MFI services contributed greatly on SMEs performance. Regarding training services, the MFIs train the SMEs owners on how to manage their businesses, their finances and how to enhance their relationship with their customers. This in turn helped to improve performance. Such training helped the businesses to minimize transaction related risks which in turn contributed to performance. Regarding lending services, the enterprises relied greatly on the MFI financing as bank financing was considered as a costly option. The SMEs reported that commercial banks consider them as uncreditworthy due to the nature of their operations and since they lack collaterals needed by the banks.

Kibet, Achesa and Omwono (2015) researched the role of MFIs credit services on the SMEs in Uasin Gishu County and identified that the majority of the SMEs relied on MFI lending services for financing. The SMEs owners reported that they preferred MFI lending due to ease of accessibility, friendly terms, and low interest rates. Through the credit services, the SMEs were able to improve their performance.

2.4 Determinants of SMEs Financial Performance

The financial performance of SMEs is influenced by a myriad of factors. One of them is insufficient financial resources (Levy, 2015). Basically, the SMEs face higher transactions costs as compared to larger firms in obtaining credit. Most of the SMEs owners utilize their savings to fund the businesses, which is insufficient to the business. Also, the SMEs have a limitation in

accessing credit since lenders mostly prefer lending to large firms with collateral. Another determinant of SME's performance is poor accounting practices (Sibanda & Manda, 2016). According to a Sibanda and Mandan (2016), most of the SMEs have poor management and accounting practices which hinders financial performance of these firms and hampers their ability to raise finance.

The financial performance of SMEs is also influenced by insufficient use of information technology. While the use of information technology has increased in the recent past, most of the SMEs have been able to leverage on this and do not sufficiently utilize such opportunities to access a wider market (Centobelli, Cerchione & Esposito, 2019). This limits the scope of their market, and the operations of the businesses remain inefficient due to reliance on traditional methods of operations. The financial performance of SMEs is also affected by poor business management skills.

Business skills and knowledge are other determinants of financial performance of SMEs. According to Hindasah and Nuryakin (2020), the business owners with larger stocks of human capital, in terms of education and vocational training, are better placed to adapt their enterprises to constantly changing business environments. With such stock of skills and knowledge, the SMEs can streamline their operations manage finances effectively and enhance customer relations. This translates to higher sales and high profitability.

2.5 Conceptual Framework

This framework presents a diagrammatic representation of the study variables. In this study, the independent variables are microfinance services. These services include saving services, lending services, and business training services. The financial performance of SMEs is the dependent variable in this study. It is measured in terms of net margin as these businesses rarely keep books of accounts and therefore not possible to use Returns on Assets (ROA). In this study, it was hypothesized that the saving services offered to the SMEs by the MFIs help to the business owners to safeguard their funds and control their money consumption habits. This ensures the businesses have sufficient funds for operations. The lending services offered by the MFIs enable the SMEs to purchase productive assets and to run their operations. This in turn help to boost the performance of the businesses. The training services offered by microfinance institutions to SMEs help to enhance their financial literacy, business management, customer relations among

other areas. These in turn contribute to the financial performance of the businesses. The conceptual framework is presented on the figure below.

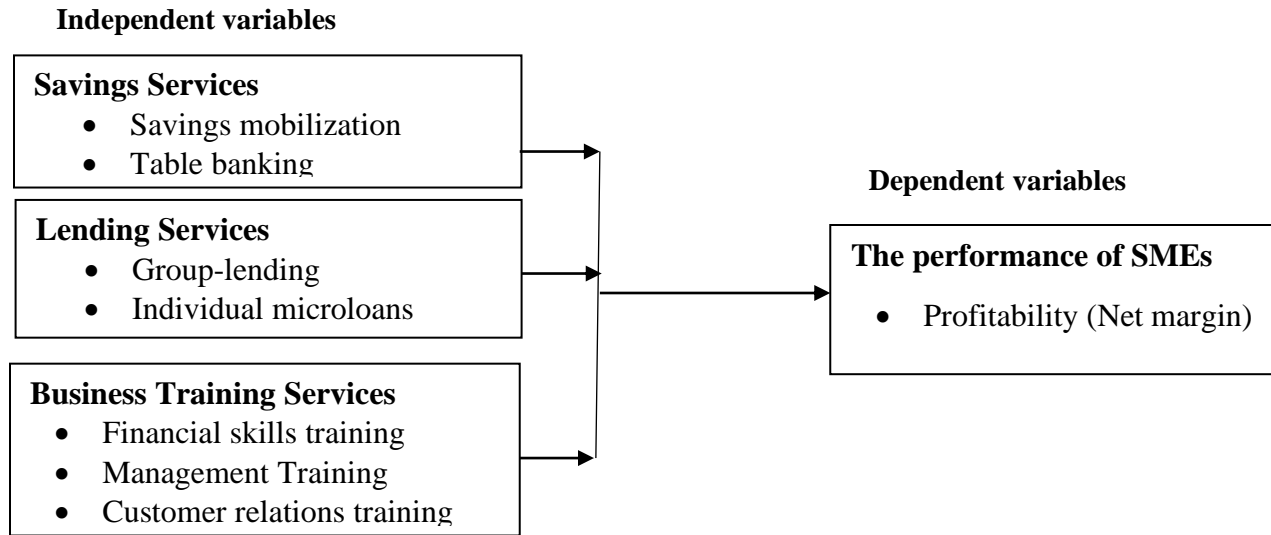


Figure 2.1: Conceptual Model

Source: Researcher (2021)

2.6 Summary of Literature Review

The reviewed studies offered insights on the roles MFIs play in promoting the performance of SMEs. Based on reviewed literature, microfinance institutions play a crucial role and promote the performance of the SMEs. One of the areas in which the MFIs promote the SMEs is provision of lending services. The available literature shows that the SMEs rely on MFIs for loans as the associated terms are customer friendly, do not require high collateral and have low interest rates that the SMEs can afford. By extending loans to the SMEs, the MFIs help them to expand their business operations and to improve their financial performance. The other area in which the MFIs promote the SMEs is micro savings. In this regard, the available literature shows that the MFIs promote a culture of savings to the SMEs by offering them savings schemes that are easy to manage. The other area in which the MFIs promote the SMEs is provision of training services. In this regard, the available literature shows the training programs offered help the SMEs to manage their businesses well, to manage finances effectively and to have good relationships with their customers. This in turn improves the financial performance of the businesses.

Based on the available literature, it is evident that extensive research has been conducted to find out the influence of microfinance services on the SMEs performance both locally and internationally. However, while much has been done in the Kenyan context, not much has been done on the role of MFs on the SMEs performance in Elgeyo Marakwet despite the SMEs being the key source of livelihood in the county. Regarding studies that have been done in Elgeyo Marakwet, only one by Maiyo (2016) that focused on MFIs and their contribution to SMEs. There was therefore a need to analyze other services offered by the MFIs such as lending and savings services and the effects on the financial performance of the SMEs, hence the rationale of this study.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section discusses the techniques and procedures that the study used to answer the research questions. It explains the processes to be followed in selecting the respondents and collecting and analyzing data to meet the research objectives.

3.2 Research Design

A descriptive research design was used in this study. This is a scientific method that enables researchers to collect and evaluate data to determine the prevailing situations and relationships in regard to a given phenomenon. This design aims to identify elements linked to specific events, outcomes, situations, or patterns of behavior (Mugenda and Mugenda, 2013). This design provides an accurate account of the research phenomenon which helps it to provide crucial information for decision making purposes (Creswell, 2013). In this study, purpose was to assess and describe the current situation regarding the role of microfinance services and the performance of SMEs, hence the rationale of a descriptive research design.

3.3 Target Population

A target population refers to a group of people or items under study that have common traits (Mugenda & Mugenda, 2012). For this analysis, the target population comprised of all the SMEs in Elgeyo Marakwet. According to Cheruiyot (2020), there are 2000 SMEs that are registered and operating in Elgeyo Marakwet.

3.4 Sample Size Determination

The sample size was computed using Yamane formula as follows.

$$n = \frac{N}{1 + N(e^2)}$$
$$n = \frac{2000}{1 + 2000(0.05^2)}$$

n=333 SMEs

The sample size therefore comprised of 333 SMEs owners.

3.5 Sampling Methods and Procedures

The SMEs owners and managers were sampled through stratified random sampling method. Stratification ensured all the sectors in which the SMEs operate are covered. Simple random was applied within each sector of operation to determine the businesses to include in the study. The SMEs owners or managers were selected using purposive sampling method as they are considered to have sufficient knowledge on the SMEs' operations and the role the MFIs have on their businesses.

3.6 Data Collection Methods

Both primary and secondary data was utilized. Collection of primary data was done using questionnaires. This tool was considered suitable in collecting quantitative data from a large sample, it collects data that is easy to analyze using quantitative methods, and it is economical to use (Gillham, 2013). The questionnaire that was used in this was divided into different sections. The first section captured demographic data. The second section captured data on the first objective, that is, the impact of savings services offered by the MFIs on the businesses. The third section captured data on the role of lending services and the last section collected data on the role of business training and education services offered by the MFIs to the SMEs owners. Secondary data was collected from various print materials considered relevant to the study. This data and information were used to supplement the primary data collected from the respondents.

3.7 Validity and Reliability Analysis

3.7.1 Validity Analysis

Validity analysis was done to determine the accuracy and truthfulness of the questionnaire (Kothari, 2012). Both face validity and content validity were used in this study. Consultations were done with the supervisor and experts in the research department to determine content validity. Face validity was done to determine and eliminate ambiguity in the questionnaire.

3.7.2 Reliability Analysis

Reliability analysis was done to determine the ability of the research tool to yield consistent results (Kothari (2004). A pilot study was conducted before the actual data collection exercise. This helped to determine the feasibility and suitability of the research tools. It also helped the

researcher to acquaint with the target responds and the area of study. One SME owner from each sector was included in the pilot study.

The test-retest reliability analysis was utilized as a measure of consistency of the research tool. The questionnaires were evaluated using the Cronbach coefficient alpha statistic in which 0.6 cut-off was deemed appropriate. Best and Kahn (2006) argues that a coefficient of 0.6 or above is required for the tool to be regarded reliable. In this case, if the Cronbach coefficient alpha calculated is 0.73 was obtained and the questionnaire was considered credible.

3.8 Data Analysis Methods and Procedures

Quantitative methods were used to analyze the closed ended questions using SPSS. Both descriptive and inferential analysis was utilized. Descriptive analysis helped to give a profound understanding of the respondents and the background information about the SMEs under study. This analysis method also helps to analyze the views of the respondents about the influence of MFIs on the SMEs performance. This involved the use of means and percentages. Inferential analysis helped to determine the relationship between microfinance services and the financial performance of SMEs. This was done using regression analysis method. The regression model was of the following form.

$$Y = \beta_0 + \beta_1X1 + \beta_2X2 + \beta_3X3 + \varepsilon$$

Where:

Y = Financial Performance of SMEs

β_0 = It is the intercept of the model.

β_1 , β_2 , and β_3 = The coefficients of the independent variables

X1= Microfinance savings

X2=Microfinance lending services

X3=Microfinance training services

ε = Error term

Test of significance was done at 95% confidence level. The p values less than 0.005 implied that the model is significant while the values greater than 0.05 implied that the model is statistically

not significant. The variables with p values less than 0.05 were statistically significant determinants of SMEs performance. On the other hand, the variables with p values greater than 0.05 were considered not statistically significant determinants of SME performance.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The study in this section presents data analysis and presentation of findings. The first section presents the questionnaire response rates and the second section presents the demographic analysis. The other sections are structured in line with the research objectives. In this study the purpose was to determine the effects of microfinance services on SMEs performance in Elgeyo Marakwet County. Specifically, the study analysed the effects of microfinance savings services, microfinance lending services, and microfinance training and education on the performance of SMEs in Elgeyo Marakwet County.

4.2 Response Rates

The researcher issued 333 questionnaires to the participants of the study out of which 237 were dully filled. This formed 71.3%. According to Kothari (2004), a response rate that is greater than 50% is enough to give reliable findings and conclusions. Therefore, the response rate for the study was quite high and sufficient to make study conclusions and provide reliable findings. The response and non-response rates are presented on the table below:

Table 4.1:Response and non-response rates

Response and non-response rates	Frequency	Percentage
Response	237	71.2%
Nonresponse	96	28.8%
Total	333	100

Source: Field data (2021)

4.3 Gender of the Respondents

The gender of the respondents was analysed to determine whether there was a difference in business ownership between males and females. The findings are presented in the figure below:

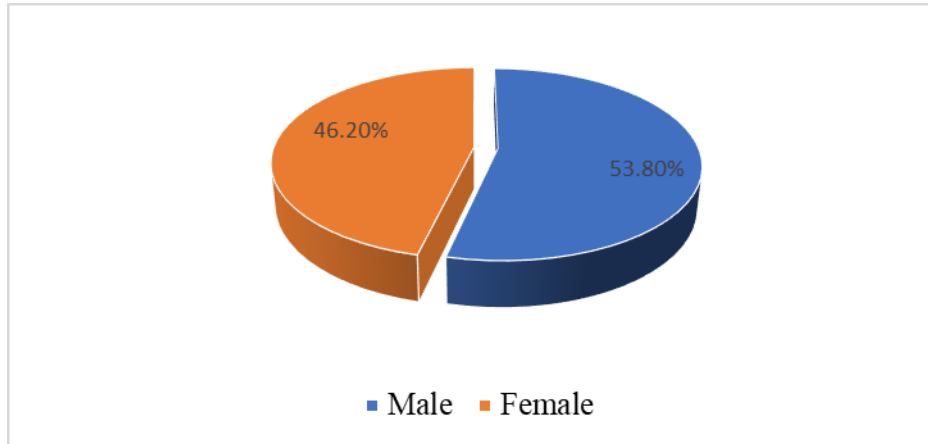


Figure 4.1: Gender of the respondents

Source: Research Findings

The findings on figure 4.1, 53.8% of the respondents were males and 46.2% of the respondents were females. From the findings, while the proportion of male business owners was relatively higher than that of the females, the difference was small.

4.31 Age of the Respondents

The distribution of the respondents was analysed to determine whether there were variations in business ownership in terms of age. The age of the respondents was operationalized in different categories as indicated in the figure below:

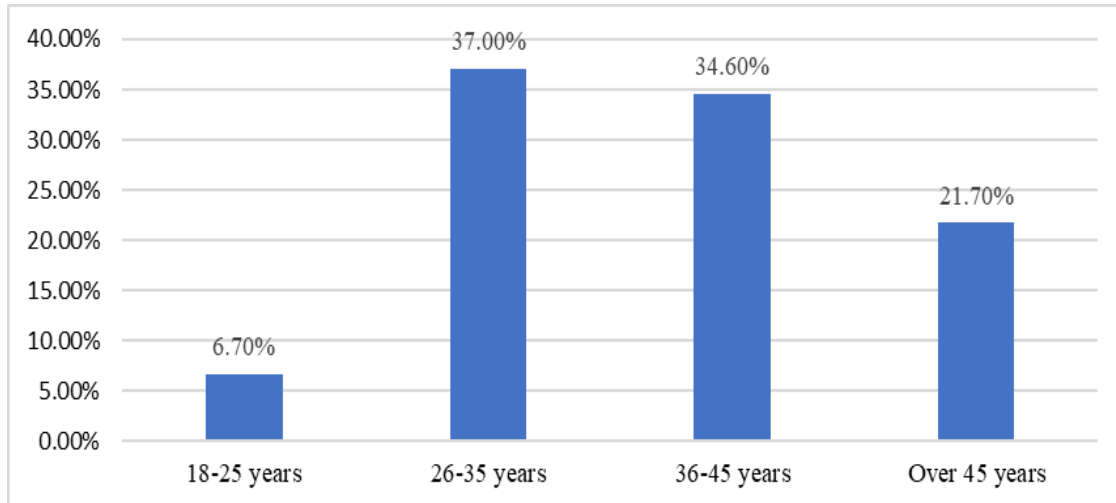


Figure 4.2: Distribution of the respondents by age

Source: Research Findings

From the analysis, 37% of the respondents were aged 26-35 years, 34.6% were aged between 36-45 years, 21.70% were aged over 45 years, and 6.7% were aged 18-25 years. The findings imply that most of the SMEs owners who participated in the study were aged between 26-45 years. This age category is mature enough and have clear business motives unlike the minority aged between 18-25 years who are mostly still pursuing their careers.

4.3.2 Education Level

The study sought to determine the education attainment of the respondents. This was operationalized in different categories as shown in table 4.1 below

Table 4.2: Education

Education	Frequency	Percentage
Primary	36	15.2%
Secondary	120	50.6%
College level	40	16.9%
Undergraduate	30	12.7%
Postgraduate	11	4.6%
Total	237	100

Source: Field data (2021)

From table 4.2, most of the respondents have secondary accounting for 50.6%. Those who had attained primary education accounted for 15.2%, those with college education accounted for 16.9%, the respondents with undergraduate education accounted for 12.7% and a small proportion of the respondents had post graduate degrees accounting for 4.6%. The findings imply that a good proportion of the respondents had attained considerable education level and had good business management skills.

4.3.3 Form of Business Ownership

Analysis was done to determine the type of business ownership of SMEs in Elgeyo Marakwet county. The findings are presented on the figure below.

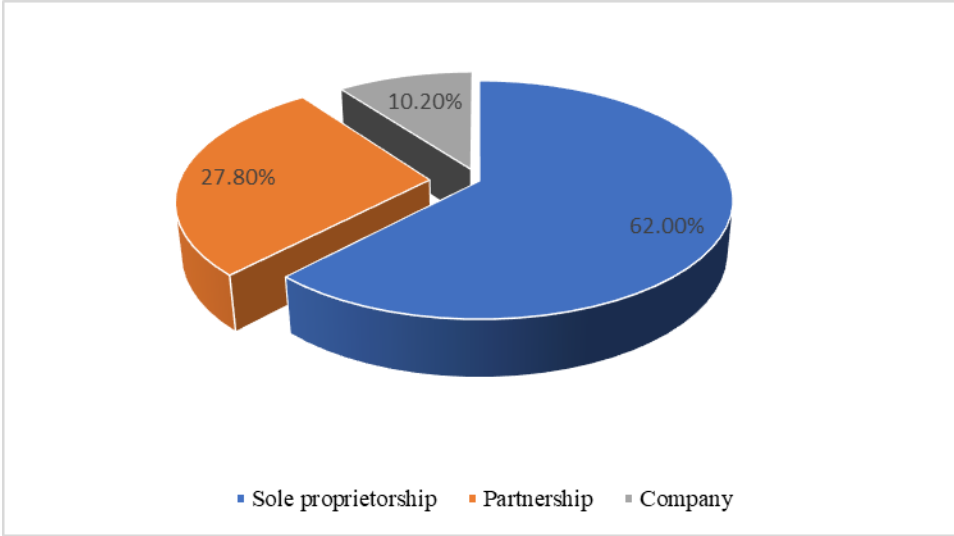


Figure 4.3: Form of business ownership

Source: Research Findings

From figure 4.4, most of the businesses were registered as sole proprietorship accounting for 62%. Partnerships accounted for 27.8% while a small proportion of the businesses were registered as limited companies. The largest proportion of sole proprietorships are attributed to the simple nature of this nature of business in terms of administration and tax obligations.

4.3.4 Sector of Operation

Analysis was done to determine the distribution of the SMEs in Elgeyo Marakwet County by their sectors of operations. The findings are presented on the table below:

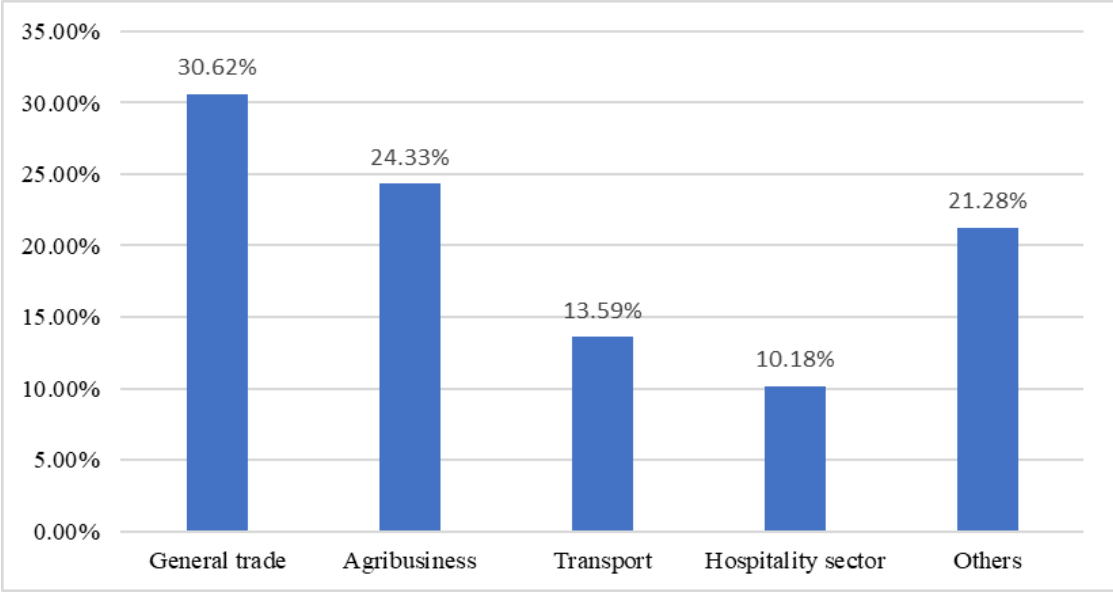


Figure 4.4: Sector of operation

Source: Research Findings

Based on the analysis, 36.62% of the respondents are involved in general trade, 24.33% are involved in agribusiness, 13.59% are involved in transport sector, 10.18% are involved in hospitality sector and 21.28% operate in other sectors.

4.3.5 Duration of Operation

Analysis was done to find out the duration the SMEs had been in operation. This was crucial as it helped to determine whether the business owners had sufficient experience to give reliable data pertaining to the operations and performance of the businesses. The findings are presented in the figure below:

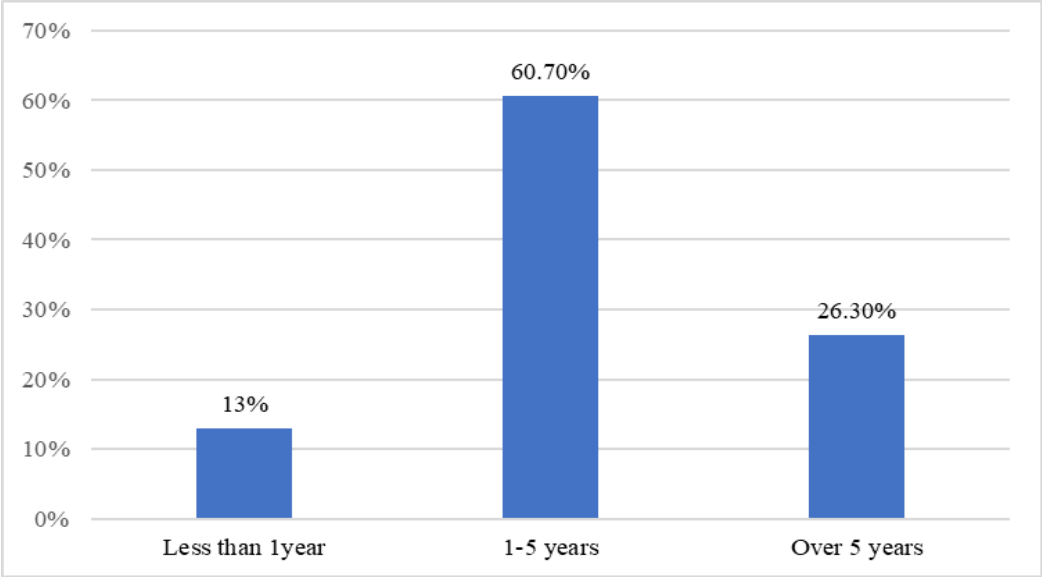


Figure 4.5: Duration of operation

Source: Research Findings

From figure 4.5, many businesses had been operation for 1-5 years accounting for 60.7%, 26.3% had been in operation for over 5 years while a small proportion had been in operation for less than one year. The findings show that many of the businesses had been in operation for a considerable duration and the owners were therefore well placed to give reliable data pertaining to the business operations and performance.

4.4 Microfinance Lending Services and SMEs Performance

Analysis was done to determine the effect of microfinance lending services on the performance of SMEs in Elgeyo Marakwet County. To begin with, the respondents were required to indicate whether they have benefited from loans from microfinance institutions. The findings are presented in the chart below:

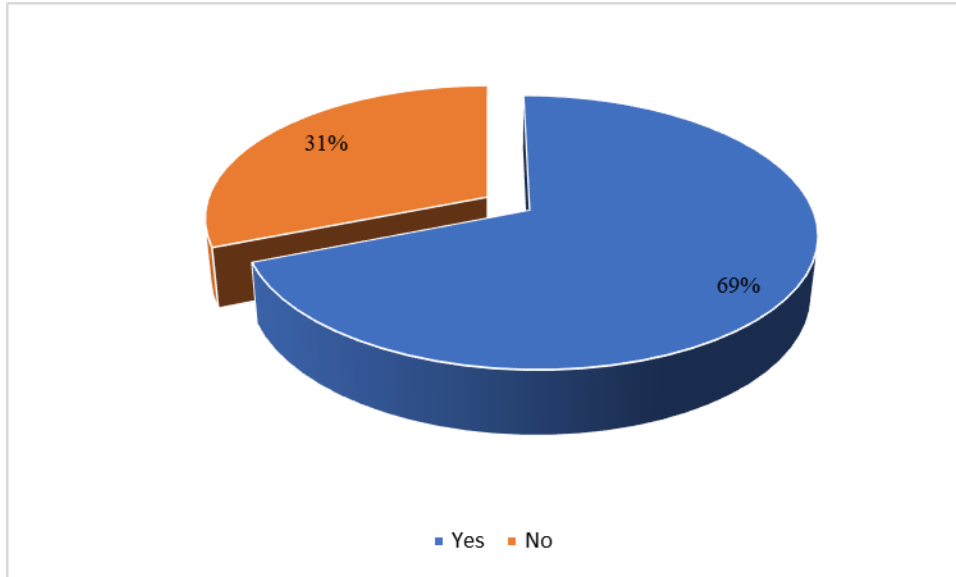


Figure 4.6: Benefiting from MFIs loans

Source: Research Findings

From figure 4.6 many of the SMEs owners who participated in the study reported that they have benefited from loans from MFIs accounting for 69%. Only a small proportion of the respondents reported that they have not benefited from MFIs loans. This proportion accounted for 31%. For the respondents who reported that they have benefited from the loans, a large proportion reported that they utilize the loans as startup capital. This accounted for 54.8% while 45.2% used the loans to expand their businesses. The findings imply that generally, the SMEs used the MFIs loans to startup businesses and to expand their businesses. The findings are presented on the figure below:

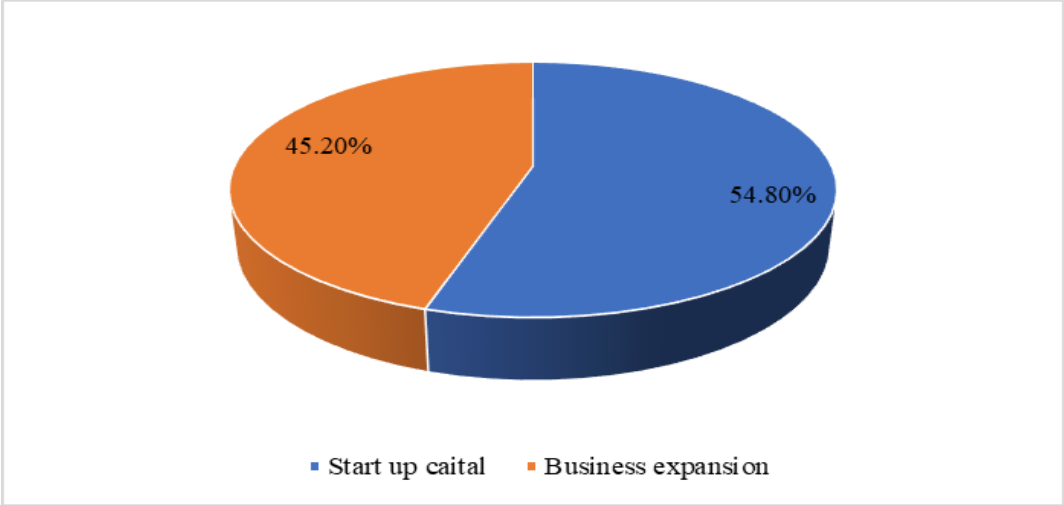


Figure 4.7: Use of MFIs loans

Source: Research Findings

On the reasons why the SMEs took loans from the MFIs, most of the respondents reported that they take MFIs loans due to flexible payment

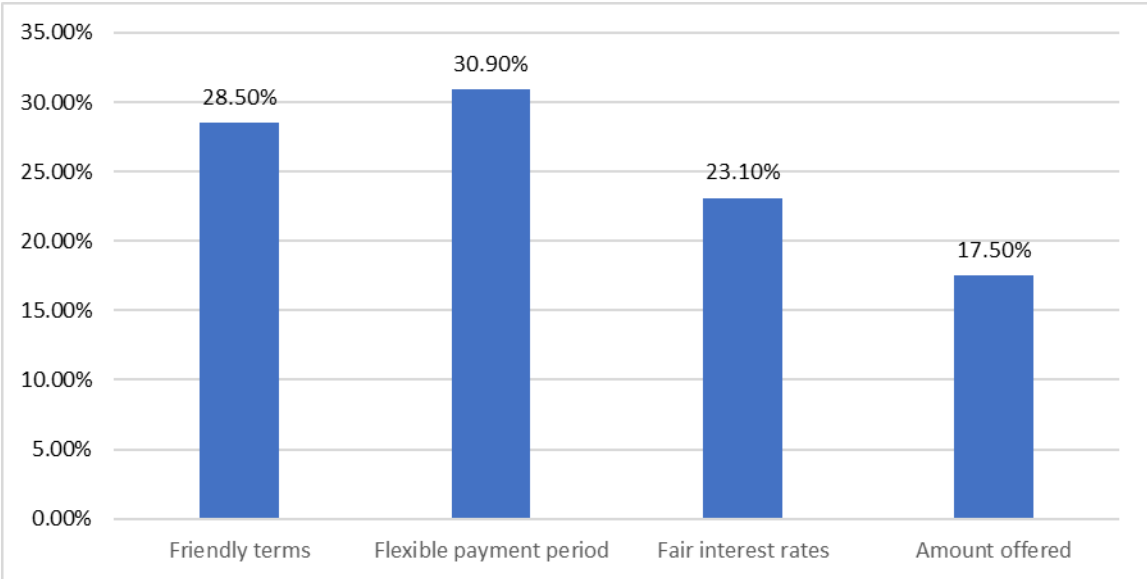


Figure 4.8: Reasons why the SMEs took loans

Source: Research Findings

On the role of microfinance lending services on the SMEs performance, the respondents agreed that the lending services have helped to boost business capital (M=4.250) and to improve the liquidity position of the SMEs (M=4.050). However, the respondents neither agreed nor

disagreed that the microfinance lending services have helped to boost the profitability of the businesses (M=3.500). The findings are presented on the figure below.

Table 4.3: Descriptive Statistics for microfinance lending services

Statement	Mean	Std.
Microfinance lending services have boosted business capital	4.250	.44426
Microfinance loans has boosted business liquidity position	4.050	.51042
Microfinance loans has led to an increase in profitability	3.500	.51299

Source: Research Findings

4.5 Microfinance Savings Services and SMEs Performance

The purpose of the study here was to analyze the effect of savings services offered by the MFIs to the SMEs in Elgeyo Marakwet County. To begin with, analysis was done to determine whether the sampled businesses have benefited from MFIs savings services. The findings are presented on the figure below:

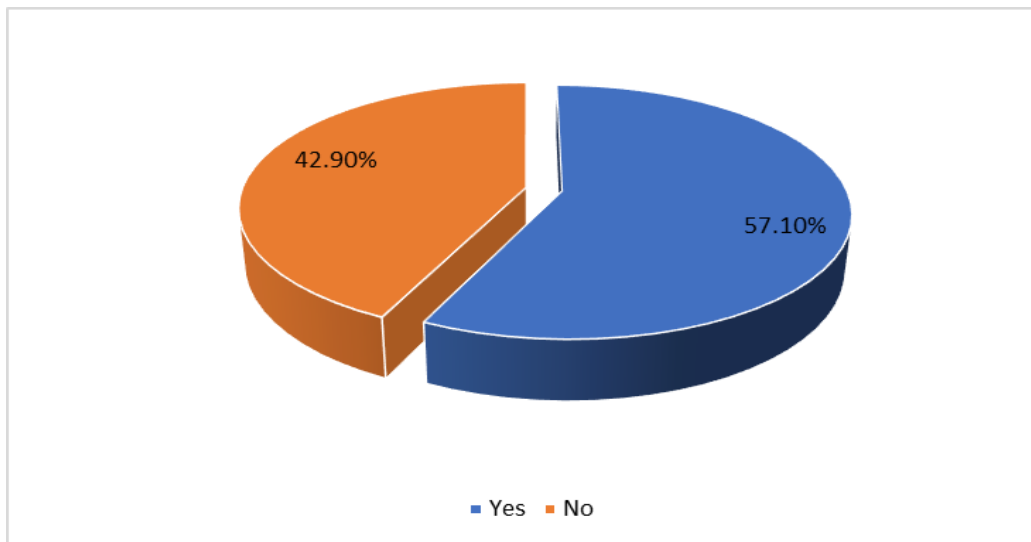


Figure 4.9: Benefits from MFIs saving services

Source: Research Findings

From the analysis, 57.1% of the respondents reported that they have benefited from microfinance savings services while 42.9% reported that they have not benefited from microfinance savings services. The findings imply that a majority of the respondents have embraced the microfinance

savings service. On the extent to which the microfinance saving services have contributed to the SMEs performance, 30.1% of the respondents reported that the services have contributed to SMEs performance to a moderate extent accounting, 27.4% reported that the micro savings services have contributed to the SMEs performance to a small extent, 18.80% reported that the savings have contributed to the SMEs performance to a great extent, 8.9% were of the opinion that the savings services have contributed to the SMEs performance to very great extent while a small proportion were of the view that the microfinance savings services have not contributed to the SMEs performance at all. The findings are presented on the figure below:

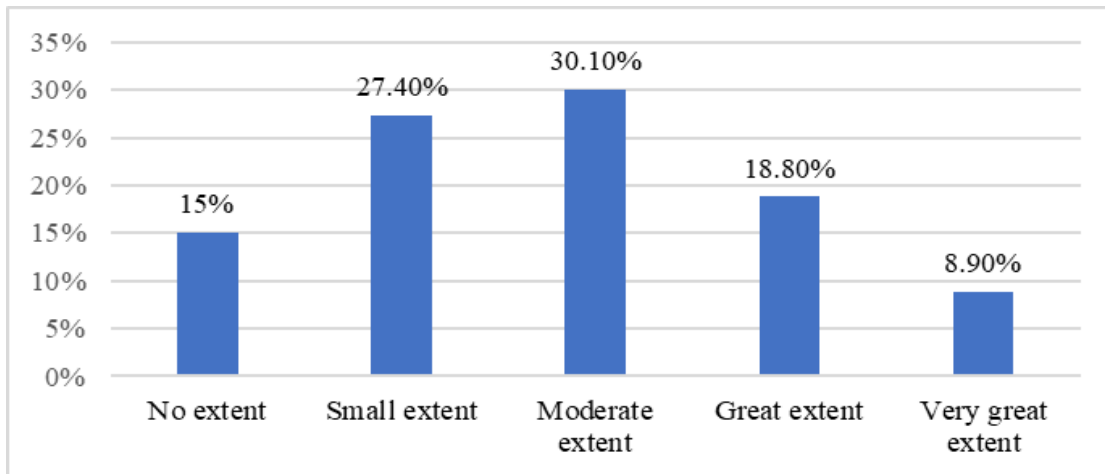


Figure 4.10: Microfinance saving services and SMEs performance

Source: Research Findings

Further analysis was done to determine how the SMEs owners rate the microfinance savings services. The analysis sought to determine whether the respondents perceive the savings services as sufficient, whether the mobile banking savings services offered by the MFIs are convenient to the businesses, and whether the minimum savings allowed by the MFIs is affordable to the businesses. Also, the analysis sought to determine whether the micro saving services have helped to improve business capital, the liquidity of the businesses, and the overall profitability of the businesses. The findings are presented on the figure below.

Table 4.4: Descriptive analysis of microfinance savings services

Statements	M	Std.D
Micro-Saving has helped to improve business capital	4.250	.44426
Micro-Saving has helped to improve liquidity position	4.083	.30779
Micro-Saving has helped to improve profitability	3.600	.59824
The minimum savings allowed by the MFIs is affordable by the businesses.	4.406	.30779
Mobile banking savings services offered by the MFIs is convenient to the firms.	4.390	.55251
Micro savings services provided by the MFIs are sufficient to the business	4.550	.22361

Source: Research Findings

Based on the analysis, the respondents agreed that the microfinance saving services offered by the MFIs to the SMEs are sufficient to the businesses (M=4.550), are convenient to the businesses (M=4.390), and that the minimum savings allowed by the MFIs is affordable by the businesses (M=4.406). Regarding the benefits of the savings services to the SMEs, the SMEs owners agreed that the micro savings has helped to improve business capital (M=4.250), and to improve the liquidity positions of the businesses (M=4.083). However, the SMEs owners who participated in the study neither agreed nor disagreed that the savings services offered by the MFIs have contributed to the profitability of the firms. This can be attributed to the fact that the profitability of the SMEs depends on many factors including COVID-19 and the containment measures which have highly impacted on business environment.

4.6 Microfinance Training Services and SMEs Performance

The purpose of the study here was to analyze the effect of training services offered by the MFIs to the SMEs in Elgeyo Marakwet County. To begin with, analysis was done to determine whether the sampled businesses have benefited from MFIs. The findings are presented on the figure below:

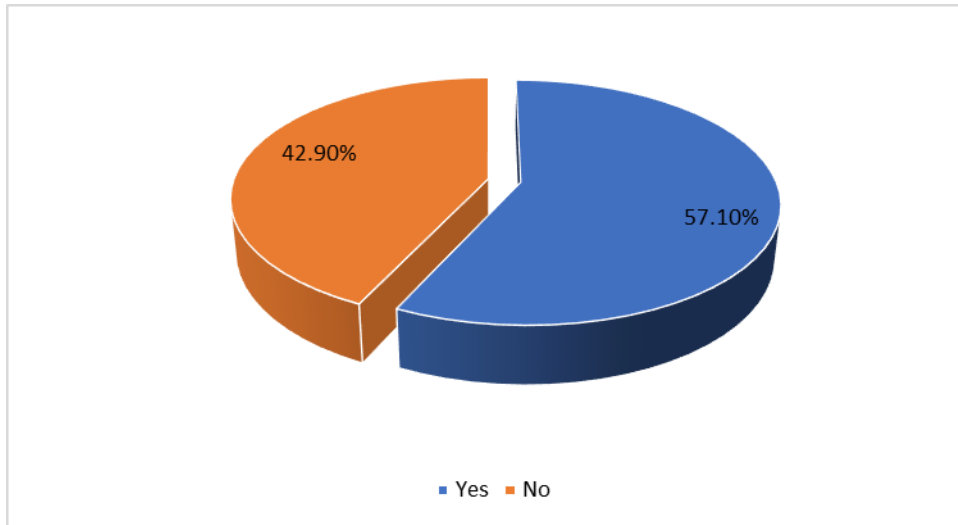


Figure 4.11: Benefits from MFIs training services

Source: Research Findings

Based on the analysis findings, the majority of the respondents reported that they have benefited from microfinance training services. This accounted for 59.1%. Those who reported they have not benefited from MFIs services accounted for 40.9%. This is the proportion that still has bad perceptions about the MFIs services.

On the extent to which MFIs training improve the profitability of the businesses, the majority of the respondents reported that the microfinance training services have influenced the financial performance of the businesses accounting for 46.1%. A small proportion reported that the microfinance training services have influenced the financial performance of the SMEs to a very large extent accounting for 12.9% and to a large extent accounting for 12.8%. The findings are presented on the figure below:

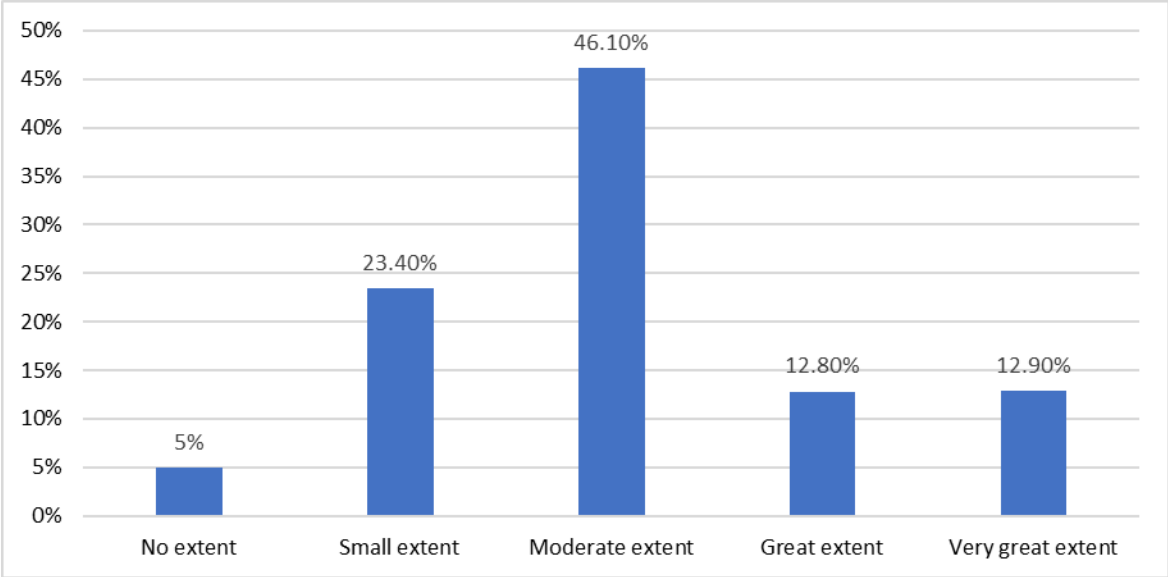


Figure 4.12: Extent to which MFIs training improve the profitability of the businesses,

Source: Research Findings

Specifically, the analysis was done whether the SMEs have benefited from the training services, the extent to which microfinance training affect performance and the influence of microfinance training on the profitability of the businesses. Further, analysis sought to determine whether training services have helped the SMEs in business management, financial management, customer relations, capital investment decisions, among other aspects. The findings presented on the table below.

Table 4.5: Descriptive Statistics for micro training services

Statement	M	Std.D
Microfinance training services have improved the business profitability	3.850	.5231
Microfinance training services have helped me to manage my business effectively.	4.270	.3077
Microfinance training services have helped me to improve financial management of my business	4.250	.6386
Microfinance training services have helped me to improve customer relations.	4.291	.3077
Microfinance training services have helped me to improve my capital investment decisions.	4.087	.8825
The frequency of training programs offered by the MFIs is sufficient.	2.650	.5231
Training on management skills offered by the MFIs is sufficient to the business.	2.811	.3663
Training on record keeping by the MFIs is essential for the business	4.277	.4701
Training on the investment areas by the MFIs increases sales of the business	3.772	.5712

Source: Research Findings

Based on the findings on table 4.5, the respondents neither agreed nor disagreed that the agreed that the microfinance training services have improved the business profitability (M=3.85). They also neither agreed nor disagreed that the training services have helped them to increase sales (M=3.772). According to the SMEs owners who participated in the study, it is not possible to attribute the sales and profitability of their business to the training offered by the MFIs. This is because the performance of the businesses is affected by other numerous factors including COVID 19 and the containment measures instituted by the government. Regarding business management, the respondents agreed that the training offered by the MFIs has helped them to manage their business more effectively (M=4.270). More related to this, the SMEs owners reported that through the training, they have gained customer relations skills (M=4.291). However, despite acknowledging the significance of management training offered, the respondents felt that the training offered is not sufficient to the business (M=2.650) and that the frequency with which training is offered is not sufficient (M=2.811). Regarding financial management, the respondents agreed that the microfinance training services have helped me to improve financial management of my business (M=4.250), and to improve their capital

investment decisions (M=4.087). Regarding record keeping, the SMEs owners agreed that the MFIs offer them such training and they acknowledged that it is essential for their businesses (M=4.277). However, despite the business owners acknowledging this, a majority of them still do not keep complete business records.

4.7 Inferential Analysis

Inferential analysis was conducted to determine the relationship between microfinance services and the performance of SMEs in Elgeyo Marakwet County. This was done using regression analysis. The dependent variable was the performance of SMEs while the independent variables were microfinance lending services, microfinance savings services and microfinance training services. The regression analysis findings are presented as follows;

Table 4.6:Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.867 ^a	.752	.749	.39488

Source: Research Findings

The percentage variation in the dependent variable, the financial performance of the SMEs by the independent variables, that is the microfinance services was explained using the coefficient of determination (R^2). Based on the analysis findings, the R squared value obtained was 75.2%. This implies that the variation in the performance of the SMEs was explained microfinance services by 75.2%. The remaining percentage was explained by other factors.

Analysis of Variance (ANOVA) was used to test the significance of the regression model. The findings are presented on the table below;

Table 4.7:ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.705	3	.568	3.645	.035 ^b
Residual	2.495	16	.156		
Total	4.200	19			

Source: Research Findings

From the ANOVA table, the p value of 0.035 was obtained which is less than 0.05. This implies that the regression model was statistically statically significant in explaining the relationship between microfinance services and the performance of SMEs in Elgeyo Marakwet County.

Table 4.8:Coefficients table

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.337	1.436		.931	.030
Lending	.515	.182	.551	2.830	.001
Savings	.102	.180	.111	.567	.038
Training	.327	.249	.254	1.311	.017

Based on the analysis, micro lending services had statistically significant contribution to SMEs performance. This is because, the p value obtained (Sig.=0.001) is less than 0.05. This implies that the more the SMEs seek loans from the MFIs the higher the chances of the businesses to record good performance. Regarding the microfinance savings services, the savings services had statistically significant contribution to SMEs performance. This is because, the p value obtained (Sig.=.038) is less than 0.05. This implies that the more the SMEs embrace the MFIs savings the higher the chances of the businesses to record good performance. Regarding microfinance training services, training services had statistically significant contribution to SMEs performance. This is because, the p value obtained (Sig.=017) is less than 0.05. This implies that the more the SMEs owners undergo the training the higher the chances of the businesses to record good performance.

4.8 Discussion of the Findings

Based on the analysis, the study established that the MFIs have contributed to the performance of the businesses. With regard to micro lending services, the study established that the SMEs have largely embraced the services of microfinance lending services. The microlending services offered help some businesses to start up their business as well as expanding their ventures. The SMEs preferred the loans due to flexible repayment period and friendly terms. The findings agree with the findings of Ameer and Jamil (2013) who, in a study on the effectiveness of microfinance credit facilities on SMEs performance in Pakistan identified that that microfinance

loans advanced to SMEs had significant contribution to their growth and performance. Similarly, the findings are in agreement with Kibichii and Wafula (2020) who identified that the microfinance loans have greatly contributed to the growth of SMEs in Nairobi as they mainly used the loans to expand their operations. Further, the findings are in agreement with Ruathdel (2020) who identified that microlending services contributed greatly to the performance of boda boda businesses in Nairobi County.

Regarding the micro saving services, the study identified that SMEs in Elgeyo Marakwet have benefited greatly from the micro saving services offered by the MFIs. The study identified that the micro saving services are sufficient to the businesses, are convenient to the businesses to the businesses, and that the minimum savings allowed by the MFIs is affordable by the businesses. Through the savings, the businesses can improve their business capital and the liquidity positions of the businesses. The findings agree with Chole (2017) who identified that the micro saving services offered by MFIs have contributed to the SMEs performance in Kariobangi light industry in Nairobi. The study identified that the SMEs prefer MFI savings services as compared to saving with banks as it is easier to operate the saving account, no ledger fee is needed for MFI savings account and regular deposits are customer friendly.

Regarding training services, the study established that the micro training services have contributed greatly to the growth of SMEs in Elgeyo Marakwet. Through the training services, the SMEs have gained key skills in business management, financial management, customer relations, capital investment decisions, among other aspects. The findings are in agreement with Chole (2017) who identified that the micro training services offered by MFIs have contributed to the SMEs performance in Kariobangi light industry in Nairobi. The training services helped the SMEs owners to manage their business, to keep good customer records and to effectively manage their finances. Similarly, the findings are in line with Omondi and Jagongo (2018) who identified that the MFIs training services helped the SMEs owners in Kisumu County to enhance their ability to manage their working capital and managing their business operations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to determine the effect of microfinance services on SMEs performance in Elgeyo Marakwet county.. In this chapter, the study presents a summary of the key findings, the conclusions, recommendations, and suggestions for further studies.

5.2 Summary

The purpose of the study was to analyze the effect of microfinance services on the performance of SMEs in Elgeyo Marakwet County, Kenya. Specifically, the study sought to determine the effects of microlending services, micro saving services and micro training services on the performance of the SMEs. Based on the inferential analysis, there was strong positive relationship between all the microfinance services and the performance of the SMEs, which indicates that the MFIs play a key role to the performance and growth of SMEs in Elgeyo County.

5.2.1 Microlending Services and Financial Performance of SMEs

The purpose of the study was to determine whether microlending services offered by the MFIs have contributed to the performance of SMEs. Based on the analysis, a large proportion of the SMEs have embraced the services of microfinance services and reported that they have benefited a lot. However, there is still a proportion that still perceive the MFIs services as not important. For the proportion that has benefited from the loans, the majority reported that they used the funds as startup capital while others reported that they utilized the loans to expand their ventures. On the reasons why they preferred taking loans from the MFIs, majority reported that they preferred the loans due to the flexible repayment period and friendly terms. Others reported that they preferred the loans due to fair interest rates and the amount offered. On the benefits of the microfinance services to the performance of the businesses, the SMEs owners who participated in the study agreed that the loans have helped to boost the capital of the businesses and to improve the liquidity of the businesses. However, they neither agreed nor disagreed that the microlending services have helped to improve the profitability of their businesses. This can be

attributed to the fact that the performance of the businesses is affected by numerous micro and macro factors and therefore, it is hard to link the profitability of the businesses directly to the loans they get from the MFIs.

5.2.3 Microfinance Savings Services and SMEs Performance

The purpose of the study here was to analyze the effect of savings services offered by the MFIs to the SMEs in Elgeyo Marakwet County. Based on the analysis, a majority of the respondents reported that they have benefited from microfinance savings services. However, there was still a proportion of the SMEs owners who reported that they have not benefited from the microfinance saving services. The findings imply that while a large number of the SMEs have embraced microfinance savings services, there is still a need for the SMEs owners to be sensitized about the importance of microfinance services. For the respondents who agreed that they have benefited from microfinance savings, the respondents agreed that the microfinance saving services offered by the MFIs to the SMEs are sufficient to the businesses, are convenient to the businesses to the businesses, and that the minimum savings allowed by the MFIs is affordable by the businesses.

On the extent to which the microfinance saving services have contributed to the SMEs performance, a majority of the SMEs owners who took part in the study reported that microfinance savings services have to a moderate extent contributed to the SMEs growth. Regarding the benefits of the savings services to the SMEs, the SMEs owners agreed that the micro savings has helped to improve business capital, and to improve the liquidity positions of the businesses. However, the SMEs owners who participated in the study neither agreed nor disagreed that the savings services offered by the MFIs have contributed to the profitability of the firms. This can be attributed to the fact that the profitability of the SMEs depends on many factors including COVID 19 and the containment measures which have highly impacted on business environment.

5.2.3 Microfinance Training Services and SMEs Performance

The purpose of the study was to determine the influence of microfinance training services on the performance of SMEs. From the analysis, the study established that a majority of the SMEs have benefited from MFIs training services. On the extent to which the SMEs have benefited from the MFIs training services, a majority of the respondents reported that they have benefited from

microfinance training services. On the benefits of the MFIs training services to the SMLEs, the respondents reported that the training services have helped the SMEs in business management, financial management, customer relations, capital investment decisions, among other aspects. With regard to profitability, the respondents neither agreed nor disagreed that the training services have contributed to the profitability of the businesses as well as the sales made by the businesses. This is because, it is not possible to attribute the profitability of the businesses and the sales directly to the training offered as there are other numerous factors that influence the sales and profitability of the businesses.

5.3 Conclusion

Based on the study, the study concludes that microfinance institutions have largely benefited the SMEs. While there are still a proportion of the SMEs that have not embraced the services of the MFIs, there is still large proportion who benefit from the services. Regarding lending services, the study established that a large proportion of the SMEs have benefited from the microfinance lending services. The loan was mostly used as start u capital and to expand the operations of the businesses. The loans have helped to boost business capital, and the liquidity of the businesses. The study concludes that the SMEs preferred taking the loans due to flexible repayment period allowed by the MFIs, friendly terms, fair interest rates, and the amount offered. The study concludes that the timelines the MFIs use to process the loans is favorable, the interest rates are favorable and terms, grace period and repayment period are favorable.

Regarding micro savings, the study concludes that many the SMEs have benefited from microfinance loans. The study concludes that the minimum savings allowed by the MFIs are favorable, the mobile banking savings services are convenient to the SMEs and that the savings services offered are sufficient to the businesses. The study concludes that through the savings offered, the business owns have improved their capital, and have improved the liquidity positions of their businesses. However, the study concludes that it was not possible for the business owners to attribute the profitability of their businesses to the savings services as there are other factors that impact on business performance.

Regarding training services, the study concludes that a majority of the respondents reported that they have benefited from the training services and that the training services are essential to the businesses. Specifically, the study concludes that the microfinance training services have

equipped the business owners with business management skills, financial management skills, customer relations skills, and capital investment skills. Regarding the sales and profitability of the businesses, the study concludes that it was not possible for the business to attribute the sales made and the profitability to the training as there are other numerous factors that influence the firms. However, despite acknowledging this, the study concludes that the frequency with which the MFIs is not sufficient and that the scope the of the training is not sufficient.

5.4 Recommendations

The study makes several recommendations based on the findings:

Firstly, the study concluded that microlending services are vital to the performance of the businesses. However, there is still a proportion that has not embraced the microlending services. The MFIs are therefore recommended to educate the SMEs and increase awareness on the importance of taking the microfinance loans to expand their businesses.

Secondly, the study identified that a large proportion has benefited from the micro saving services. However, since there is still a proportion that has not embraced the micro savings services, there is still a need for the MFIs to intensify awareness among the business owners on the need to embrace and increase savings.

Thirdly, the study identified that training services have largely benefited the SMEs. However, the study established that the frequency with which the MFIs train the SMEs is not sufficient and that the scope the of the training is not sufficient. In this regard, the MFIs are recommended to intensify their training program to benefit the SMEs.

5.5 Suggestions for Further Studies

Several research gaps emerge that require further studies. To begin with, the study only focused on microlending services, micro saving, and micro training services offered to the SMEs. There is a need for another study that would focus on other microfinance services such as microinsurance. Secondly, the study was limited to the SMEs in Elgeyo Marakwet, and hence the need for other studies to be conducted in other counties.

References

- Abisuga-Oyekunle, O. A., Patra, S. K., & Muchie, M. (2020). SMEs in sustainable development: Their role in poverty reduction and employment generation in sub-Saharan Africa. *African Journal of Science, Technology, Innovation and Development*, 12(4), 405-419.
- Ameer, B., Jamil, M. (2013), Effectiveness of microfinance loans in Pakistan (A borrower perspective). *Global Journal of Management and Business Research Finance*, 13(7), 1-5.
- Amsi, F., Ngare, P., Imo, P., & Gachie, M. (2017). Effect of microfinance credit on SMEs financial performance in Kenya. *Journal of emerging trends in economics and management sciences*, 8(1), 48-61.
- Arshad, M. Z., Khan, W., Arshad, M., Ali, M., Shahdan, A., & Ishak, W. (2020). Importance and Challenges of SMEs: A Case of Pakistani SMEs. *Journal of Research on the Lepidoptera*, 51(1), 701-707.
- Ayub, M. S., Harun, M. A., Mifli, M., & Majid, A. (2020). The Role of Business Grant Assistance, Micro Saving and Financial Knowledge towards Bumiputera SME Business Performance in Sabah. *Asian Journal of Entrepreneurship*, 1(4), 172-186.
- Banerjee, S. B., & Jackson, L. (2017). Microfinance and the business of poverty reduction: Critical perspectives from rural Bangladesh. *Human relations*, 70(1), 63-91.
- Baporikar, N., Nambira, G., & Gomxos, G. (2016). Exploring factors hindering SMEs' growth: evidence from Namibia. *Journal of Science and Technology Policy Management*, 7(2), 190-211.
- Barney, J. (1991) 'Firm resources and sustained competitive advantage', *Journal of Management*, 17(1), 99-120.
- Barney, J. B. (2001). Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. *Journal of management*, 27(6), 643-650.
- Bloomfield, J., & Fisher, M. J. (2019). Quantitative research design. *Journal of the Australasian Rehabilitation Nurses Association*, 22(2), 27-30.

- Cheruiyot, A. (2020). The Effects of Financial Perspective as A Determinant of Performance in Small and Medium Enterprises. A Case of Elgeyo Marakwet County, Kenya. *American Journal of Strategic Studies*, 2(1), 1-11.
- Conner, K. (1991). A historical comparison of resource-based theory and five schools of thought within the industrial organization economics: do we have a new theory of the firm? *Journal of Management*, 17 (1), 121-154.
- Cowling, M., Marlow, S., & Liu, W. (2019). Gender and bank lending after the global financial crisis: are women entrepreneurs safer bets? *Small Business Economics*, 1-28.
- Cozarenco, A., & Szafarz, A. (2014). Microcredit in developed countries: unexpected consequences of loan ceilings. *Working Papers CEB*, 14
- Das, C. P., & Swain, R. K. (2018). Influence of Capital Structure on Financial Performance. *Parikalpana: KIIT Journal of Management*, 14(1). Vol.14(I), 161-186
- David, D. Z. (2017). Impact of Microfinance Services on Performance of Small and Medium Scale Enterprises (SMEs) In Zaria Metropolis. *International Journal of Scientific Research in Social Sciences & Management Studies*, 49-65
- Donkor, J., Donkor, G. N. A., Kankam-Kwarteng, C., & Aidoo, E. (2018). Innovative capability, strategic goals, and financial performance of SMEs in Ghana. *Asia Pacific Journal of Innovation and Entrepreneurship*, 12(2), 238-254.
- El Madani, A. (2018). SME Policy: Comparative Analysis of SME Definitions. *International Journal of Academic Research in Business and Social Sciences*, 8(8), 103-14.
- Garoma, B. F. (2012). Determinants of microenterprise success in the urban informal sector of addis ababa: a multidimensional analysis. Research and thesis paper.
- Harash, E., Al-Timimi, S., & Alsaadi, J. (2014). The influence of finance on performance of small and medium enterprises (SMES). *technology*, 4(3), 161-167.
- Ismail, J. T., & Atheru, G. (2017). Microfinance institutions on financial performance of small and medium enterprises: A case of Kilifi Town, Kenya. *International Academic Journal of Economics and Finance*, 2(3), 387-401.

- Jia, C., Tang, X., & Kan, Z. (2020). Does the Nation Innovation System in China Support the Sustainability of Small and Medium Enterprises (SMEs) Innovation? *Sustainability*, 12(6), 2562.
- Karadag, H. (2015). Financial management challenges in small and medium-sized enterprises: A strategic management approach. *EMAJ: Emerging Markets Journal*, 5(1), 26-40
- Kibichii, A. K., & Wafula, F. (2020). Effect of microfinance products on the growth of small and medium enterprises in Nairobi County. *International Academic Journal of Economics and Finance*, 3(6), 152-167.
- Kipsang, N. J. (2016). *Effects of Micro-Finance Services on The Performance of Small and Medium Enterprises Performance in Nakuru Town* (Doctoral dissertation, Kabarak University).
- Kiptanui Cheruiyot, A. (2020). The effects of financial perspective as a determinant of performance in small and medium enterprises. A Case of Elgeyo Marakwet County, Kenya. *American Journal of Strategic Studies*, 2(1), 1-11.
- Gillham, A., Burton, D., & Gillham, E. (2013). Going beyond won-loss record to identify successful coaches: Development and preliminary validation of the Coaching Success Questionnaire-2. *International Journal of Sports Science & Coaching*, 8(1), 115-138.
- Kull, A. J., Mena, J. A., & Korschun, D. (2016). A resource-based view of stakeholder marketing. *Journal of Business Research*, 69(12), 5553-5560.
- Mugenda, O. & Mugenda, A. (2012). *Research methods dictionary*. Nairobi: Applied Research & Training Services (Arts Press).
- Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* (4th ed.). London: Sage Publications Ltd.
- Mugenda, O. M. and Mugenda, A. G. (2003). *Research Methods: Quantitative and Qualitative Approaches*, Acts Press, Nairobi, Kenya
- Thomas, G. (2019). Case Study. In P. Atkinson, S. Delamont, A. Cernat, J.W. Sakshaug, & R.A. Williams (Eds.), *SAGE Research Methods Foundations*

- Durrheim, K. (2006). Research design. *Research in practice: Applied methods for the social sciences*, 2(1), 33-59.
- Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Age International.
- Lusweti, C. B., & Mwasiaji, E. (2020). Microfinance Services and Performance of Women Owned Business Enterprises in Busia County, Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting*, 2(3), 24-37.
- Makorere, R. (2014). The role of microfinance in promoting small and medium enterprises (SMEs) in Tanzania: empirical evidence from SMEs holder who have received microcredit from financial institutions in Morogoro, Tanzania. *Global Business and Economics Research Journal*, 3(4).
- Moussa, F. (2020). Impact of microfinance loans on the performance of SMEs: the case of Lebanon. *Business: Theory and Practice*, 21(2), 769-779.
- Omondi, R. I., & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International academic journal of economics and finance*, 3(1), 24-43.
- Omwansa, D. M. (2015). *The effect of microfinance institutions' products on financial performance of small and medium enterprises: A case of Machakos Town, Kenya* (Doctoral dissertation, Egerton University).
- Penrose, E. (1959). *The Theory of the Growth of the firm*. Oxford: Basil Blackwell Publisher.
- Penrose, E. (1980). *The Theory of the Growth of the firm*. Oxford: Basil Blackwell Publisher, 2nd Ed.
- Richard, E., & Kabala, B. (2020). Account receivable management practices of SMEs in Tanzania: a qualitative approach. *Business Management Review*, 22(2), 51-66.
- Robu, M. (2013). The dynamic and importance of SMEs in economy. *The USV annals of economics and public administration*, 13(1 (17)), 84-89.
- Ruathdel, G. Y. (2020). *Effect of Microfinance Institutions on Performance of Entrepreneurship in Kenya: A Case of Bodaboda Business in Nairobi County* (Doctoral dissertation, United States International University-Africa).

Selase, A. M., Selase, A. E., Ayishetu, A. R., Comfort, A. D., Stanley, A., & Ebenezer, G. A. (2019). Impact of Technology Adoption and Its Utilization on SMEs in Ghana. *International Journal of Small and Medium Enterprises*, 2(2), 1-13.

Timmons, J.A. (1999). *New Venture Creation. Entrepreneurship for the 21st Century*. Singapore: McGraw-Hill

Woźniak, M., Duda, J., Gąsior, A., & Bernat, T. (2019). Relations of GDP growth and development of SMEs in Poland. *Procedia Computer Science*, 159, 2470-2480.

Zahra, S. A., Nielsen, A. P., & Bogner, W. C. 1999. Corporate entrepreneurship, knowledge, and competence development. *Entrepreneurship Theory and Practice*, 23(3): 169–189.

Appendix I: Research Questionnaire

I humbly ask you to partake in this exercise to enable me to complete my research successfully. The study is meant for academic reasons only confidentiality will be highly upheld. Please tick as guided.

Section A: Background Data

1. Gender

Male []

Female []

2. Age

18-20 yrs []

21- 55 yrs []

26-30 yrs []

31-40 yrs []

41-50 yrs []

Over 50 yrs []

3. Education level?

Primary []

Secondary []

Diploma []

Undergraduate []

Postgraduate []

4. Form of ownership

Sole proprietorship []

Partnership []

Company []

Other (specify).....

5. Business category

General trade	
Transport Industrial factories and workshops	
Health Entertainment	
Professional and technical services	
Cereals and groceries	
Manufacturing	
Textiles	
Agricultural Producers and processors	
Hotels and Restaurants	
Foodstuff	
Textile	
Electronics	
Machinery	
Chemicals	
Stationery	
Furniture	
Plastic ware	
Assorted metallic items	
Cutlery and crockery	
Other categories	

6. Duration in operation

Less than, 1 year

1-5 yrs []

Over 5 yrs []

SECTION B: MICROFINANCE LENDING SERVICES

1. Do you benefit from loans from MFIs?

Yes [] No []

2. If Yes, how do you utilize the loans?

To start-up business []

To expand business []

Others--- plisse specify

2. What made you seek financial help from microfinance institutions

Friendly Terms []

Flexible repayment period []

Fair interest rates []

Amount offered []

Other.....

3. To what extent does Microfinance lending contribute to the financial performance of your business?

i. No extent []

ii. Small extent []

iii. Moderate extent []

iv. Great extent []

v. Very great extent []

4. Please rate the following statements on the role of microfinance trending your business whereby- **SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree**

Statement	SD	D	N	A	SA
Microfinance lending services have boosted business capital					
Microfinance loans has boosted business liquidity position					
Microfinance loans has led to an increase in profitability					

5. This section inquires how satisfied you are with the microfinance lending services. Use the rating criteria where

Statement	Most favorable	Very favorable	Favorable	Moderately favorable	Not Favorable
Timeline in processing the loan					
Interest rates					
Grace period					
Repayment period					
Terms					

SECTION C: MICROFINANCE SAVING SERVICES

1. Do you benefit from microfinance saving services?

Yes [] No []

2. Do the savings services contribute to the performance of your business?

Yes [] No []

3. Please give your rating on the role of savings services offered by MFIs on your business. Give your rating as follows; **SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree**

Statement	SD	D	N	A	SA
Micro-Saving has helped to improve business capital					
Micro-Saving has helped to improve liquidity position					
Micro-Saving has helped to improve profitability					
The minimum savings allowed by the MFIs is affordable by					

the businesses.					
Mobile banking savings services offered by the MFIs is convenient to the firms.					
Micro savings services provided by the MFIs are sufficient to the business					

SECTION D: MICRO FINANCE TRAINING SERVICES

1. Do you benefit from microfinance saving services?

Yes []

No []

2. To what extent does Micro savings affect your financial performance?

i. No extent at all []

ii. Small extent []

iii. Moderate extent []

vi. Great extent []

v. Very great extent []

3. This section seeks to establish the effect of microfinance training services. Use the rating criteria where **SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree**

Statement	SD	D	N	A	SA
Microfinance training services have improved the business profitability					
Microfinance training services have helped me to manage my business effectively.					
Microfinance training services have helped me to improve financial management of my business					

Microfinance training services have helped me to improve customer relations.					
Microfinance training services have helped me to improve my capital investment decisions.					
The frequency of training programs offered by the MFIs is sufficient.					
Training on management skills offered by the MFIs is sufficient to the business.					
Training on record keeping by the MFIs is essential for the business					
Training on the investment areas by the MFIs increases sales of the business					

THANK YOU FOR PARTICIPATING.