THE EFFECT OF MICROFINANCE INSTITUTIONS SERVICES ON THE FINANCIAL PERFORMANCE OF THE SMALL AND MICRO ENTERPRISES IN NAIROBI COUNTY

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DECLARATION

This research project is unique and is my personal work, and has never been submitted for award of any examination in any other University.

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DEDICATION

This project is dedicated to my family and friends for their continued support.

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ABBREVIATIONS

GDP	:	Gross Domestic Product
GoK	:	Government of Kenya
KNBS	:	Kenya National Bureau of Statistics
MFI	:	Microfinance Institution
MSE	:	Micro and Small Enterprises
SME	:	Small and Micro Enterprises

ABSTRACT

The Kenyan SME sector has seen a paradigm shift in the last couple of years with intensified competition and entry of new well established players. However, financing small businesses in Kenya still remains one of the greatest challenges aspiring and practicing entrepreneurs face. As such, microfinance institutions are established so as to bridge the capital insufficiency gaps that exist among the SMEs. Though the provision of services by the MFIs is aimed at boosting the financial performance of the micro and small institutions, small businesses continue to experience difficulty in obtaining capital. The aim of the study was to establish the effect of microfinance institutions services on the financial performance of SMEs in Nairobi County. The research population was from of all the Nairobi County SMEs. The sample gave a total of 56 SMEs which was selected by using random sampling technique from the identified population. The study used purely primary methods in data collection. A descriptive analysis was employed to analyse the data. The findings established that the County received an equal distribution of the various microfinance services (loans, savings, micro-finance insurance and training) but the effect the services had on the SMEs were diversified. The results obtained also showed that, the effect of the variables combined had a strong relationship with SMEs financial performance as shown by a coefficient of correlation of 0.8704. The positive influence that exists between the variables is supported by 89% of the respondents stating a positive effect between microfinance services and SMEs performance. The study makes the conclusion that each service offered by the microfinance institution impacts differently, with some having positive impacts while others having negative impacts.

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

SMEs in Kenya constitute a category that is difficult to define the "small" and "big" firms categories. The Kenyan SME industry involves employment of between 50 to 200 employees and capital assets of a considerable amount (RoK, 2014).In relation to the economic development the SMEs play an important role by creating employment, creation of wealth, eradication of poverty and creation of new firms (Wakaba, 2014). There are about 900,000 establishments employing 2 million Kenyans contributing to country's GDP about 14 per cent of the country's GDP. Thus in the globally, SMEs are considered as engines of development and economic backbones of various countries.

The importance of Small and Micro Enterprises in economic matrixes has therefore increased across the globe, through increased government legislation and policies. These measures aim at nurturing SMEs as engines of employment creation and as engines of economic growth (RoK, 2015). However, a survey by Kenya National Bureau of statistics (KNBS) (2014), indicates from five SME businesses three of them fail within the first few months in operation. Financing small businesses in Kenya being one of the greatest challenges aspiring and practicing entrepreneurs face. This is attributed to the fact that finance and financial related services are an important prerequisite in initiation, development and growth of business enterprises (Memba, et al., 2014).

Microfinance institutions are thus established so as to bridge these capital insufficiency gaps that exist among the SMEs (World Bank, 2014). Micro finance organizations provide services to their clients (small scale entrepreneurs), such as savings and credit services to finance their new business start-ups (Maengwe and Otuya, 2016). They provide on a smaller scale access to capital and contribute to low income population development by encouraging people to engage in economic activities which are productive. Additionally, the Micro finance institutions (MFIs) ensure that the businesses not only get financial aid but also financial advice.

Inadequate physical capital (loan access and savings) as well as human capital (skill acquisition and education) and bonding necessities the need of micro-finance services by the firms (Maengwe and Otuya, 2016). Though the provision of services by the MFIs is aimed at boosting the financial performance of the SMEs, small businesses continue to experience difficulty in obtaining capital. This study sheds more light on that, through the investigation of the effect of MFIs services on the financial position of SMEs in Nairobi County, where most SMEs in Kenya are located.

1.1.1 Microfinance Services

Microfinance is termed as development tool which gifts administrations and items, for example, extremely investment fund, little advances little protection and cash move to help with setting up and extending organizations of the low pay people(Mbithe, 2013). It likewise alludes to the idea of arrangement of little size administrations particularly to the lower portion of the rustic and urban populace (Hudon, et al, 2016). Also microfinance is seen as the arrangement of money related and non-benefits by MFIs to low salary bunches without unmistakable security yet whose exercises are connected to pay creating wanders (Olowe, et al, 2013).

In Kenya the microfinance organizations, which give the microfinance administrations, are under the rules of the Kenyan Micro Finance Act, which was actualized in 2006 and was dynamic in 2008 (RoK, 2015). With the appropriation of this demonstration, numerous organizations could apply for smaller scale back licenses at the Central Bank of Kenya either as a group or national establishment. As of now, in Kenya there are 24 substantial small scale back foundations. Act. The five biggest establishments are: Equity Bank with a piece of the overall industry of 73.50%, Kenya Women Microfinance Bank (KWFT): with a piece of the pie of 12.06%, K-Rep Bank with a piece of the pie of 6.39%. There is also Faulu with a piece of the overall industry of 3.56% and Jamii Bora that has a piece of the pie of 0.86% in light of their gross advance portfolio (Curtis, 2012).

Miniaturized scale back administrations rose to fill the hole left by banks in giving credit to people, smaller scale, little and medium endeavors which ascended amid this period (Ogindo, 2006). Microfinance money related exercises include: little advances for the most part to work capital, casual endorsement of borrowers and speculations, insurance substitutes, for example, a gathering ensure or obligatory investment funds, access to rehash and huge credits in light of reimbursement execution, streamlined advance payment and checking and secure sparing items (Olowe, et al, 2013). The SMEs' proprietors likewise advantage from capital venture choices, for example, designation of the miniaturized scale endeavor constrained capital subsidizes most successfully so as to guarantee the most ideal return.

Those administrations gave by microfinance establishments to customers can be sorted into our gatherings .The gatherings are money related intermediation, arrangement of monetary items and administrations, for example, credit, reserve funds, protection, installment framework and Visas which ought not require on-going sponsorships (Maengwe and Otuya, 2016). The accompanying are qualities of MFIs: Loans are normally under 12 months much of the time and are for the most part to work capital with quick consistent reimbursements generally week by week or month to month. After endorsement they are dispensed rapidly, for the most part for those looking for rehash advance. Consequently the accommodation MFIs benefits as a wellspring of capital for generally SMEs.

1.1.2 Financial Performance

Financial performance of a firm portrays how well the business is getting along in riches creation and obtaining of assets (Komppula, 2014). The financial performance can likewise be ascribed to the competency of an association to change the assets inside the firm in a proficient and compelling way to accomplish association objectives (Mbithe, 2013). Financial performance can along these lines be indicators of financial wellbeing over a given timeframe and in examination with comparative firms over similar industry or to think about businesses or parts in total (Bernardin and Russel, 2009).

Several techniques to quantify financial performance, yet all measures ought to be taken in conglomeration. The general measure of business performance is benefits and a definitive types of this estimation are the last records of the organization. Benefits have the favorable position that it can be utilized to gauge the viability and proficiency not just of various business capacities (showcasing, designing, creation) additionally look at changed organizations or firms (Wagana, 2014).

The most common indicators of financial performance include: sales growth, ROI, ROE, return on sales, and earnings per share. Growth of a firm is a measure of performance of an enterprise and is a function of its ability to reach and maintain equilibrium with its environment according to (Gormoma, 2014). How well an enterprise performs can also be reflected in increased sales, new and improved products and increased market share. Financial performance has however proved a great challenge to most organisations, with the SMEs being the most affected. This is view where firms perform to a little extend or not at all increasing the chances insolvency.

1.1.3 Microfinance Services and SME Financial Performance

The relationship between the effects of s services on the financial performance of SMEs is one that has received considerable attention in the finance literature. How well the services provided by the MFIs are in enhancing the performance are questions that authors have tried to answer (Olowe, et al, 2013). The idea of MFIs creation is to provide SMEs with easy reach to finance mostly to those which cannot be given loans by the bank. These funds are designed in a way to foster sustainable economic empowerment for people in developing economies therefore enlarging capacity and profits increase leading to financial performance (Kyale, 2013).

Despite these contributions of MFIs services to SME's, shortage of both debt and equity financing remains to the major barriers to financial performance and development (Muktar, 2009). Though various theories tend to explain the how SMEs capital structure decisions are made, irrelevancy still exists in application of the theories in most of the SMEs. This is because most of the SMEs have low internal capital sources and thus entirely depend on the external sources. (Olowe, et al, 2013).

Empirical evidence reported indicate no consensus on the relationship that exist with both positive and negative results being reported. Kolawole (2013) on his study on SMEs in Nigeria, obtained that MFIs services have positive significant impact in their financial performance. Mbugua (2014) concentrate on the effect of micro finance services on the financial performance of SMEs in Kenya likewise found that micro finance services upgrade financial performances of SMEs. Be that as it may, (Talantbek, 2016) hold microfinance services are not a noteworthy determinant of how the SMEs perform, yet just guides in cultivating how the organizations direct their operations. Therefore it is hard to decide the correct impact of MFIs services on the financial performance of SMEs.

1.1.4   Small and Micro Enterprises in Nairobi County

Nairobi County is home to Nairobi city, the capital of Kenya. Nairobi is largest and fastest growing cities in Africa. It is also Kenya's principal administrative, economic and cultural centre. Being the Kenyan capital, the national baseline survey (National Baseline Survey, 2014) indicated that about 17% of the total SMEs are located in Nairobi. According to the licensing record provided by Nairobi county licensing office (2015) there 30252 registered SMEs in Nairobi County Government.

The SMEs have gained much popularity among many young entrepreneurs due to the low capital required to start them. The SMEs however have a high motility rate which limits their capacity to make long haul sustainable employment and may likewise be in charge of the best number of riches and occupation misfortunes (Ahwireng, 2003). This is achieved by the SMEs' part being famously unpredictable and encounters a high level of business conclusion and shrinkage (Baard and Van Den Berg, 2004) and subsequently the administration has been attempting endeavours in helping with the advancement of the SME divisions.

Restricted access to formal finance because of deficient limit in conveying services to SMEs stays to be an imperative in development and extension of this division (Wagana, 2014). A few Organizations have set up projects to upgrade components which impact SME advancement as it identifies with development and improvement of undertakings. These associations incorporate business affiliations, deliberate associations and other non-administrative. The development and advancement of SME has not been agreeable

paying little respect to the huge number of aid projects. Wanders helping associations to haul out of the venture breakdown and the staying ones have stayed little (Memba, et. al 2012).

1.2   Research Problem

The Kenyan SME sector has seen a paradigm shift in the last couple of years with intensified competition and entry of new well established players, changing regulatory provisions and prudential guidelines, changing consumer tastes and preferences and technological advancements (Curtis, 2012). This increases the competition and the motility rate of most of the SMEs. Despite the provision of services from the MFIs, the exact effect the measures have on the financial performance isn't fully established. Theoretically, outsourcing capital externally has been hypothesized to have a great impact on the financial performance though the empirical studies have obtained mixed results (Hudon, et al, 2016).

Microfinance services are believed to facilitate access to financing to small businesses by determining the extent in which small firms accumulates own capital and save for further investment (Wagana, 2014). In attempt to understand the effect of microfinance on SMEs, numerous studies have been done. Owusu (2002) found that micro finance credit was the major source of capital for SME's. A positive correlation was shown between credit access and SME's financial position. These findings concur with those of Ojo (2009) who also established the same positive impact.

Rahmat and Maulana (2006) looked into on the effect of microfinance to SMEs Performance Indonesia. Aftereffects of the study demonstrated that Microfinance has a positive effect to change of MSE's execution showed by deals. Multiplying the measure of credit was found to negatively affect the execution demonstrated by salary and investment funds. Subsequently, demonstrating the commitment of microfinance to SME's development lies in it helping to beat their capital issue. Because of low resources base, bank interest for security denies most SMEs access to capital.

Thinks about by Maengwe and Otuya, (2016), Sivakumar et al, (2016) and Oketch (2007) however show that SMEs fizzle as a result of problem such as, poor administrations, and insufficient accounts.

This appears ironical owing to the position that it is similar problems that microfinance institutions through provision of services are strategically focused on addressing. Therefore, there exists an unfilled knowledge gap in the current research literature as far as addressing the effect of microfinance institution services and the financial performance of SMEs is concerned. The study therefore sought to answer the question; what is the effect of microfinance institutions' services on the financial performance of SMEs in Nairobi County?

1.3   Objectives of the Study

The objective of the study was to establish the effect of microfinance institutions services on the financial performance of SMEs in Nairobi County.

1.4   Value of the Study

This study will provide information which can be used to inform microfinance institutions on the extent to which credit provided to the SMEs affect their financial performance, with a special emphasis on improving the entrepreneurs' welfare through their businesses specially focusing on the growth and development of entrepreneurs.

The study will be of importance to other researchers and academicians who will find it useful in providing information about impact of micro financing on financial performance of SMEs in Nairobi County and in Kenya as a whole. It will also be important to researchers as it gives ground research can be carried out further on microcredit financing of SMEs.

The study will be helpful to the government as it will it in arrangement making concerning the financing of the Small and Medium Enterprises through microfinance back institutions. The strategy creators will secure learning on the best instruments that to be embraced to back the Small and Medium endeavors. This study is subsequently to go about as a manual for MFIs in financing the Small and Medium Enterprises in planning fitting strategies.

The data from this study will likewise help microfinance institutions that give monetary answers for SMEs. It would encourage definition of systems in view of SME needs yet not out of general impression of what SMEs require. The study will along these lines go about as an instrument to make critical approaches for SMEs businesses and supervisors who may not know about the items and administrations that are given by microfinance institutions.

CHAPTER TWO
LITERATURE REVIEW

2.1   Introduction

An analysis of literature that is related either directly or indirectly to the study on microfinance services and small and micro enterprises has been done in this chapter. The chapter reviews the different theoretical frameworks while examining their recommendation and suggestion to the examination factors. It additionally surveys the experimental writing with accentuation on the, technique, goal of the study and the outcomes. The part will settle by giving an outline of the literary works and the examination gap.

2.2   Theoretical Review

The study adopted various theories in pointing out the relationship between microfinance services and SMEs financial performance. The theories include; Pecking Order Theory, Financial Growth Theory, Micro Credit Theory and Credit Access Theory.

2.2.1   Pecking Order Theory

Pecking Order Theory was proposed by Myers (1984) and tends to explain how SMEs' capital structure decisions are made. The theory came up due the modern finance theory initial failure to good guidance on decision making in SMEs generally, and in small enterprises particularly. The theory as described by Holmes and Kent (1991) holds that the firms will initially opt to use the internal financing and only resort to the external financing if the internal sources are inadequate.

Thus the financing structure prefers internal financing if available; and, if external financing is required, debt will be preferred over equity. The firms ought for the most secure ones first in that they begin with asking for debts, then hybrid securities, and finally equity as the last option. However, due to there being two types of equity that is external and internal it results in no very much characterized target debt-equity blend (McMahon et al, 1993). POT is appropriate to both expansive ventures and SMEs, the hypothesis may hence clarify the contrasts between extensive undertakings and SMEs' money related structures (Norton's 1991).

Not at all like the extensive firms, the utilization of this hypothesis to SMEs is obliged in that; little firms more often than not don't have the choice of issuing extra equity to general society and that proprietor chiefs are emphatically disinclined to any weakening of their possession intrigue and control. These confinements compel the SMEs to be stagnated fiscally as well as may prompt indebtedness (Zoppa and McMahon, 2007). The hypothesis' application to SMEs suggests that outside equity fund issues might be wrong.

In connection to the proprietor supervisor's control over resources and operations, in the event that it holds then inward equity back will be favored, in light of the fact that this type of fund does not surrender control (Norton's 1991). At the point when outside financing is required, getting debt as opposed to equity back is favored, in light of the fact that this spots less limitation on the proprietor administrator. Hence MFIs through providing external financing for example through micro loans can enable the firms perform financially, though the external finance out to be carefully monitored. This is inconsistent with the Berger and Udell (1998) model.

2.2.2 Financial Growth Theory

Financial Growth theory was initially introduced by Berger and Udell (1998) and tends to explain various business operations. This theory holds that the funds need options of a business diverse as the business grows and get less informational opaque. Thus the firm is likely to prosper if it's adequately financed (Jones, 1979; Coleman, 2000). This implies the complexity of the capital structure of the firms intensifies as the firm grows. Various studies conducted concur with the theory in that inadequate financing was established to be the primary cause of most SME's failure (Ochanda, 2014).

Growth Theory also predicts that the firms' growth will enable it to access venture capital (VC) source of fund. Therefore the firm will become more transparent information wise hence gaining public equity and/or long term debts. The theory thus proposes that as the firm initiates or grows it need adequate finance for it to be stable. This finance can be obtained from the Microfinance institutions. The availability of the finance will enable the SMEs not only to grow but also to perform better financially (Coleman, 2000). Financial growth theory therefore implies that the MFIs have a positive effect on the performance of firms by catering for their increasing financial needs.

2.2.3 Micro Credit Theory

Micro Credit Theory was proposed by Adam Smith (1976) as a modification of the Economic Theory. The theory holds that it is conceivable to create capitalist enterprises that boost private profits subjects to welfare contemplations of their clients. The miniaturized scale credit hypothesis proposes the standard model of loaning normally containing two systems that address the issue of data asymmetries: coordinating or screening to manage unfriendly determination and associate observing to conquer moral risks (Swain, 2008).

Based on the theory, the MFIs are regarded as social consciousness-driven capitalistic enterprises thus socially concerned people (Yunus, 1994). The SMEs performance is hence hypothesized to be enhanced by the services provided by the microfinance institution as the capital insufficiencies will be minimized. This will only occur only if the capitalist enterprises have interest in maximization of the profits of the SMEs and not only out to benefit themselves.

2.2.4 Credit Access Theory

Credit Access Theory was introduced by Stiglitz and Weiss (1981) to analyze market inefficiencies. Access to finance enables the firms to obtain services and this promotes the growth of both the new and existing businesses. The theory hold that information asymmetry is one of the major causes of poor financial marketing in emerging economies. This is whereby the SMEs aren't fully aware of the services provided by the MIs and the MIs either aren't conversant on the SMEs practices.

The implication of Credit Access Theory is that though the businesses may have accessibility to credit, they will only perform financially if there exists information symmetry. The theory thus proposes that with proper information symmetry between the MFIs and the SMEs, each of the parties is more likely to benefit (Pinaki, 1998).

2.3 Determinants of Small and Micro Enterprises performance

2.3.1 Microfinance Services

Micro finance is the arrangement of financial and non-benefits by MFIs to low wage bunches without substantial guarantee however whose exercises are connected to salary creating wanders (Ledgerwood, 1999). The foundations cover abroad scope of administrations including advances, store, installment benefit, protection to poor people and their micro ventures (Bett, 2014). Microfinance foundations are frequently the main plausibility or individuals with low wage to open a record and spare. More MFIs are getting to be occupied with the capability of funds, on account of the worldwide financial emergency (Guichandut, 2006).

The MFIs empower access to credit which is thought to be a vital figure expanding the improvement of SMEs. This empowers the SMEs have better access to little advances that are not offered by the formal financial organizations. Access to credit facilitate expands SMEs chance bearing capacities and empowers utilization smoothing overtime (Rhyne and Otero, 1992). In addition, some MFIs also offer additional services, including include training, micro-deposit and micro-insurance products (Orrick et al, 2012).Local circumstances and needs are among the factors that determine the appropriate form of micro lending; however, empirical evidence has shown that the availability of microfinance has improved the lives and economic condition of the populations it serves in many cases.

2.3.2 Industry

Industrial factors influence the amount of capital to be invested and also strategies to be adopted by firms (Stieward, 2009). Studies conducted show significant variations in terms of industrial characteristics, efficacy levels and industry structure among various sectors. The industry affects the performance in that some sectors are more competitive than others, hence less profitable. This concurs with various studies undertaken which show that there is very significant difference between firms in different sectors (Barkham, 1996). Therefore how a firm performs may be determined greatly on the sector it is and not necessarily the availability of finance.

2.3.3 Age

The age of the SME refers to the duration of operation of the firm. Through its determination of the competitive advantage of the firm, the age highly influences the profitability (Barkham, et al 1996). Study findings show that SMEs have a lower risk of survival as compared to the larger firms. This is due to the age affecting the liability, legitimacy and access to external resources. A firm that has been operation for a longer time will have a larger market share and thus high profits and diversified strategies.

2.3.4 Legal Composition

How the firm was formed and its constitution highly determines the level of financial performance. The legal composition affects the decision making process and also availability pf capital. A firms consisting majorly of the owners/ managers enjoy limited liability (Stiglitz and Weiss, 1981). On the other hand firms formed from sole proprietorship and partnership have a higher risk of insolvency due to not being professionally managed and hence inconsistence growth. Therefore limited liability enhances the risk tolerance and division among individuals.

2.4 Empirical Review

Various studies have been led on microfinance services, Nilsson (2010) led a study to research the effect of MFIs on the improvement of little and smaller SMEs in Cameroon. The study received a contextual analysis approach that included CAMCCUL – (Cameroon Cooperative Credit Union League). The study reasoned that microfinance is a critical advantage for creating nations since it can provide food for financing needs of the exceptionally poor in the general public. The concentrate however depended on an outside situation and possibly a correct situation in Kenya.

Grain and Woller (2010) researched on build up the impacts of microfinance in India. The study reasoned that microfinance has brought preferred mental and social empowerment over monetary empowerment. The concentrate assist prescribed that the effect of microfinance is excellent in strength, fearless, self-value, expertise improvement, mindfulness about environment, peace in the family, decrease of neediness enhancing provincial reserve funds, administrative capacity basic leadership process and gathering administration. In different factors the effect is direct. As a consequence of

interest in microfinance, there is a watched huge change of administrative abilities, mental prosperity and social empowerment. The study only focused on microfinance in general and did not give much consideration on its impact on various sectors of the economy.

Idowu (2004) investigated how microfinance impacts on Small and Medium Enterprises (SMEs) in Ghana. The study adopted simple random sampling technique in conducting the study thus obtaining a sample size of 100 SMEs. Data was obtained by the use of questionnaires and analyzed using descriptive statistics. The study established that a high number of the SMEs benefitted from the MFIs loans despite not all of them being able to obtain secure the amounts they needed. Additionally, most of SMEs posit the MFIs loans to contribute positively towards the performance of the firms. The exact relationship that exist wasn't fully established by the study.

Wachira (2011) investigated the factors that influence the use of microcredit amongst the SMEs based at Mutindwa market of Buru Buru estate. Descriptive survey approach adopted in this research for primary data collection involved giving questionnaire to the SMEs. The study found out that there is a strong relationship between MFI loan use and the loan terms and conditions. MFIs loans were noted to be popular because of their group lending model where security was by group guarantee demonstrating the fact that a majority of the loan consumers who are commonly women lacked tangible collateral. This study thus shows that the provision of loans is one of the major actors drawing SMEs to use microfinance services.

Simeyo et al., (2012) researched impact of arrangement of micro finance on the execution of micro enterprises: An investigation of youth micro enterprises under Kenya Rural Enterprise Program (K-REP), Kisii County, Kenya. The MSEs were set up to play incredibly towards the nations as their commitment to the GDP was roughly 20%. The accessibility of micro finance is gone for advancing the development of micro enterprises. In this manner the fast development of (MFIs) has made the SMEs' to get to credit more than twofold from 7.5% in 2006 to 17.9% in 2009. Notwithstanding the expansion, a late study has demonstrated that more than half of SMEs keep on having a declining execution with 3 in each 5 MSEs coming up short inside months of foundation.

This along these lines shows that the microfinance administrations offered were not sufficiently satisfactory to counteract bankruptcy of the SMEs henceforth demonstrating the requirement for more studies.

Muthoka (2012) directed a study on the impact of microfinance on budgetary maintainability of SMEs in Nairobi East Locale. This investigation issue was considered utilizing a causal research layout. The pro pondered 1327 SMEs in Nairobi East Region. This investigation considers used purposive looking at framework and especially the judgmental testing technique to pick 132 SMEs which is 10% of the target. Key data was amassed through sorted out surveys. The data was then analyzed using illustrating estimations. A multivariate backslide model was associated with choose the relative essentialness of each of the variables concerning budgetary self-maintainability. The study found that the planning sexual introduction care approaches (sex consistency and SME's human rights), making courses for non-budgetary support and organizations (correlative organizations) to give watchful thought to sex. The concentrate however gave much thought to the money related maintainability of the SMEs and not the monetary execution.

Naomi, (2013) conducted a study on the effects of microfinance services on the growth of SMEs in Machakos County. She used quantitative descriptive design to investigate the type of business categories in Machakos County. The study mainly used primary data through the use of structured questionnaires issued to 100 businesses. The sample of 100 businesses from a list of 5311 was considred. The study was on dependent and independent the regression analysis conducted established that two of the independent variables (savings and access to loans) have a positive correlation with the dependent variable. Sales growth has been contributed positively through Micro credit and training and negatively through micro insurance. This indicated presence of strong positive relationship between the study variables.

Bett (2014) studied the influence of microfinance institutions services on growth of women owned small and micro enterprises in Uasin-Gishu County. In order to achieve the objective of the study both quantitative and qualitative studies were adopted. The study established that women needed collaterals to qualify for micro credit facilities

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while the application procedures were cumbersome and tiresome and hence they could not easily access microfinance. The study recommended that the design of micro savings should be changed to align to the client's needs such that withdrawal procedures should be made easier and the time period for consequent withdrawals be reduced; and that the government to partner with the MFIs and conduct civic education to reach out to the small scale entrepreneurs.

Wakaba, (2014) led a study on the impacts of smaller scale back credit on the budgetary execution of Little and Medium Endeavors (SMEs) in Kiambu Area, Kenya. This examination issue was concentrated on using overview outline. Out of the 2,061 SMEs authorized, by Area records by February 2013 this concentrate haphazardly tested 60 SME"s. The study found that there is an immediate relationship of access to credit and money related execution of the organizations. Through the study there is conclusion that the undertakings take advantage from advances offered by microfinance organizations, due to MFIs interest rate the SME seek financial assistance, easy loan repayment and amount offered.

2.5   Summary of Literature Review

Microfinance is an effective apparatus to advance monetary supportability and mitigate neediness of SMEs. The connection amongst microfinance and monetary execution of SMEs, however over and over underlined by givers and specialists in gatherings and summits, is a dubious zone of observational research. The literature reviewed shows that the difference in financial performance of firms can be linked to the financial capability of the firms. Several studies have reported that microfinance is a development model however, its role as a financial aid to SMEs has been given less focus. Also studies have majorly been conducted in leading practicing countries like India, Bangladesh and Mexico as they are considered as saturated areas for microfinance with minimal studies being done locally.

With all these controversies on the effect of microfinance on budgetary execution of claimed SMEs, there is a need to obviously set up the effect of MFIs on money related execution of SMEs. Further, the majority of the studies refered to in the writing are directed in created nations which utilize diverse key approach and monetary balance from

that of Kenya. Accordingly, there exists a writing crevice on the effect of microfinance on budgetary execution of SMEs which this study looked to fill by concentrating on Nairobi Province.

2.6 Conceptual Framework

The theoretical system portrays the relationship between the autonomous factors microfinance administrations and ward variable; SMEs' execution. The reasonable system as showed by figure 2.1 outlines how the autonomous factors add to the accomplishment of the needy variable.

Figure 2.1: Conceptual framework

Independent Variables   *Dependent Variable*

Microfinance services	SME financial performance
• Total savings done by the SMEs in microfinance institutions • Amount of microloan received by the SMEs • Number of trainings received by SMEs from microfinance institutions per year • Legal composition of the SME • Micro-insurance finance	• Return on Assets • Profitability • Net Returns

Source: Researcher 2016

The conceptual framework above shows how the variables interact and affect each other indicating that independent variables such total savings done by the SMEs in microfinance institutions as percentage of net assets, amount of microloan received by the SMEs as a percentage of net assets, number of trainings received by SMEs from microfinance institutions per year, legal composition of the SME and micro-insurance finance have a direct influence on how the SMEs performed. It is important to note that while other numerous variables such as information technology systems, government policies, and location influence how SMEs perform, this study addressed itself to the factors already listed above.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter will outline the overall methodology applied in conducting the study on the effect of microfinance institution services on the financial performance of SMEs in Nairobi County. The methodology refers to the application of data recording techniques principles and procedures to help answer the research questions. The chapter thus embodies; the research design, the target population, sample of the study, data collection methods and the data analysis.

3.2 Research Design

A research design describes the plan of the general research approach adopted to a particular study. The research design could either be descriptive or exploratory. This study adopted the descriptive research design. This study intended on capturing the information on the current effect of microfinance institution services on the financial performance of SMEs in Nairobi County and this design enabled close association between the two variables at that given point without any alteration to the conditions (Kothari, 2004). The research design also enabled the determination of the frequency and relationship between variables and therefore the most appropriate for the study (Cooper and Schindler, 2011).

3.3 Target Population

The target population refers to the sum of elements of which are of interest to the researcher and of which form a specific specification (Mugenda and Mugenda, 2008). It should be ensured that population selected is representative and has no bias (Mugenda and Mugenda, 2003).

The population for this research comprised of all the SMEs in Nairobi County. According to Nairobi County there are 30252 registered SMEs in Nairobi County, (Company Registrar, 2014). Out of these, only 11753 SMEs are found in Nairobi's CBD and this is the population that will be targeted. The unit of analysis for this study will be individual organizations with the targeted respondents being the owner or any other member of the top management.

3.4 Sample

The sample size alludes to a small group got from the open populace, which is chosen precisely in order to be an agent of the entire populace with the important qualities (Mugenda and Mugenda, 2003). The sample size relies on upon what one needs to know, the reason for the request, what is in question, what was helpful, what had believability and what should be possible with accessible time and assets (Paton, 2002). The sample size for the study was landed at utilizing the following formula: (Kothari, 2004).

$$n = NC^2 \Big/ C^2 + (N-1)e^2$$

Where, n, is the sample size, N, is the population size, C, is the coefficient of variation which is $< 30\%$, and e, is the margin of error which is fixed between 2-5%. The study sample will be calculated at less than thirty percent coefficient of variation which was 15% and 2% margin of error.

Thus the sample size was determined through the following calculations;

$$n = 11753(0.15)^2 \Big/ 0.15^2 + (11753 - 1)0.02^2$$

The sample gave a total of 56 SMEs which was selected using a random sampling technique from the identified population. This number was considered appropriate due to time and cost constraints and is more applicable as the population from which the sample is to be drawn does not constitute a homogeneous group.

3.5 Data Collection

The study used purely primary methods in data collection. Primary data entails first-hand information which has not been published. This was through the use of questionnaires. A structured questionnaire made of closed ended questions was employed for standardisation of the answers given and ease of analysis. The first section contained contingency questions touching on the general information on the business type. The second section was on measures of performance of SMEs and microfinance service indicators. Keeping in mind the end goal to ensure uniformity in response and to support investment, the questionnaire was to be made with numerous decision selections in a Likert scale.

The Likert sort scale empowered the researcher to say something regarding the options selected, alongside closed finished questions. Information quality control was overseen through unwavering quality, legitimacy testing and check of the information accumulation instruments. SME's approximate financial performance for previous five years (2011-2015) were also collected. The respondents of the questionnaires entailed the owners of the SMEs or their equivalents as they are the most conversant with the study topic and could give reliable information.

3.6 Validity and Reliability

Content validity refers to the extent to which an instrument represents the factors under study. To achieve content validity, questionnaires included a variety of questions on the knowledge of students on internet advertising and consumer behaviour. All the subjects completed the questionnaires in the presence of the researcher. This was done to prevent subjects from giving questionnaires to other people to complete on their behalf.

Reliability can be ensured by minimizing sources of measurement error like data collector bias. Data collector bias was minimized by the researcher's being the only one to administer the questionnaires, and standardizing conditions such as exhibiting similar personal attributes to all respondents, e.g., friendliness and support. Pilot testing was carried out by the researcher to identify any flaws on the questionnaire to reduce errors of measurement and test for consistency.

3.7 Data Analysis

For data to be properly interpreted and understood it must be processed or analysed. Data analysis begins after data collection and goes all the way up to the point of interpreting the results. The procedure of information examination for the most part includes sorting out, representing and clarifying the information; that is significant information regarding respondent's meaning of the circumstance-taking note of examples, subjects, classifications and regularities (Kothari, 2008). A descriptive analysis was employed to analyse data which included use of table, graphs charts, percentages and frequencies. To analyse the quantitative data, multiple regression was used and analysed using the SPSS. Data collected was presented using tables, charts and figures for ease of understanding and analysis.

3.7.1 Analytical Model

Multiple regressions method was used to analyse data and examine the relationship of dependent and independent variables and took the following format:

$$Y = \beta_O + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where;

Y is SME financial performance

X_1 is the total savings done by the SMEs in microfinance institutions as percentage of net assets

X_2 is amount of microloan received by the SMEs as a percentage of net assets

X_3 is number of trainings received by SMEs from microfinance institutions per year

X_4 is the legal composition of the SME

X_5 is the micro-insurance finance

ε is the error term

$\beta_{0\ldots}$. B6 are the various intercepts

3.7.2 Test of Significance

The essence of the relationship between the dependent and the independent variables was resolved at 95% level of confidence utilizing the investigation of the change (ANOVA), t-tests, z-tests and F-tests. Factual surmising systems were utilized as a part of making conclusions identifying with the exactness of the model. Coefficient of correlation and assurance were utilized to demonstrate the quality of independent and dependent variables and the level of blunder in the model individually.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, an analysis of the findings has been done according to the research methodology. The analysis and discussion of the findings have been done in line with the research objectives.

4.2 Response Rate

The study targeted 60 SMEs in Nairobi. The target respondents were the top managers in charge of the organizations. Out of the 60 targeted firms, 56 responded while 4 did not respond representing a response rate of 93%. The findings are presented in Table 4.1. The response rate was considered excellent for the study in achieving the study objectives. This in line with the argument of Mugenda and Mugenda (2003) that a 50 percent reaction rate is satisfactory for examination and reporting; a rate of 60 percent is great while a reaction rate of 70 percent and over is excellent.

Table 4.1: Response Rate

Response Rate	Frequency	Percent
Responded	56	93%
Not Responded	4	7%
Total	**60**	**100%**

Source: Research Findings (2016)

4.3 Descriptive Analysis

4.3.1 Business Sector

The study sought to establish the business sector the SMEs belong to. This is because the particular sector onto which an SME belongs to, highly determines not only its performance, but also the competition to be faced. The findings as illustrated below show that most SMEs belonged to the trading sector with a frequency of 24, followed by the service sector with a frequency of 17 and lastly the manufacturing sector with a frequency of 15. This thus shows that the most dominant sector was the trading industry due to the wide of products they can be able to offer. Also the trading industry has large market from the slum dwellers.

Figure 4.1: SME Sector

SME Sector

Source: Research Findings (2016)

4.3.2 Age of the SME

The study sought to determine the age of the SMEs, on the years basis the SMEs had been operating. The results obtained are as illustrated by figure 4.2 below. As shown, 18 SMEs had been operation for a period of 5-8 years, 13 for 2-4 years, 11 for less than 2 years, 9 for 8-10 years while the remaining 5 for more than 10 years. Hence showing that over 60% of the SMEs had been operation for more than two years hence well knowledgeable the SMEs market environment including microfinances. They thus gave valid and accurate information.

Figure 4.2:Age of the SME

Years Operational

More than 10 years — 5
8-10 years — 9
5-8 years — 18
2–4 years — 13
Less than 2 years — 11
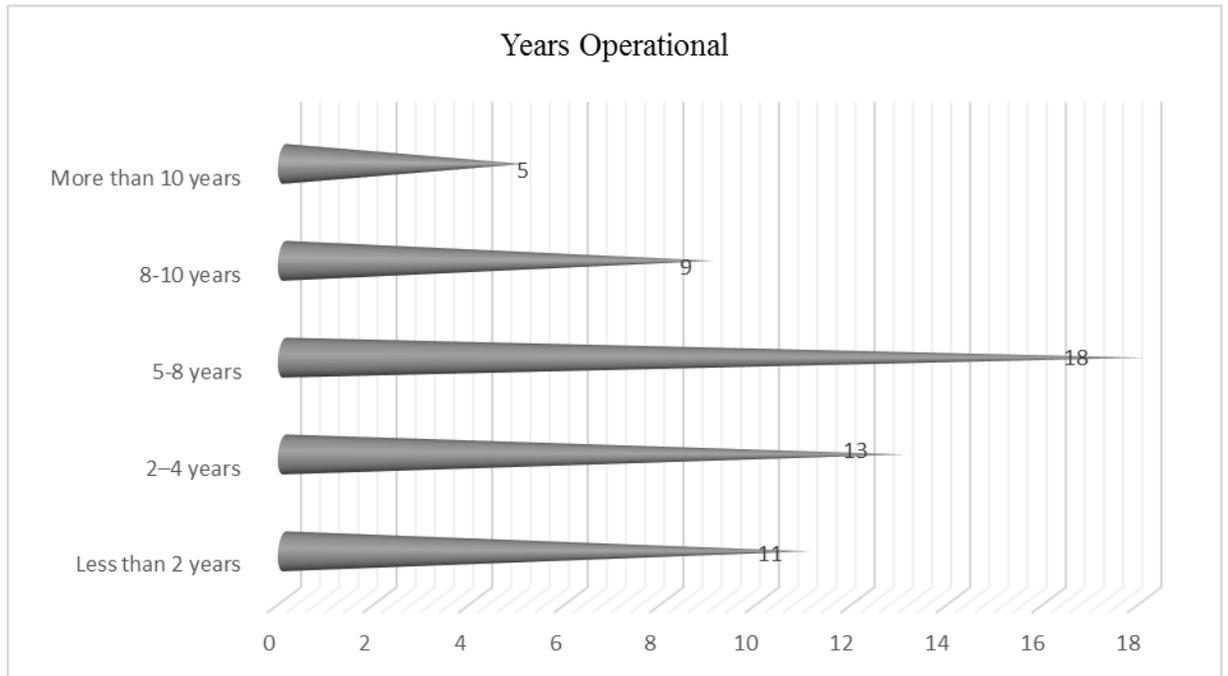
Source: Research Findings (2016)

4.3.3 Position of the Respondents

This aims at identifying the position of the respondent in the organizations. As shown below, 52% were SME owners, 23% were partners, 11% were line managers whereas 7% were both directors and other staff such as supervisors. This thus shows that the respondents belong to the top management hence the most conversant with the study topic. This is due to them having direct involvement with the organizations' operation.

Figure 4.3: Position of the Respondents
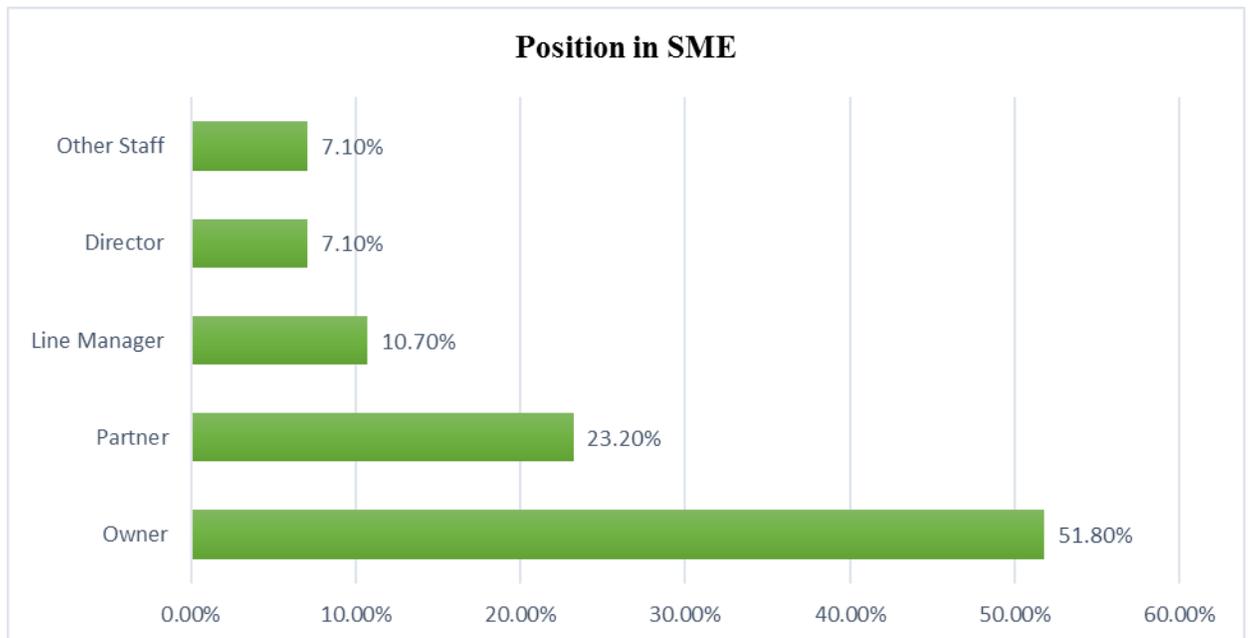
Source: Research Findings (2016)

4.3.4 Ownership

This part aims to outline legal formation of the SMEs based on the ownership. The results indicated that 54% of the SMEs was incorporated through sole proprietorship, 32% formed through partnership while the remaining 14% being formed through limited companies as illustrated by figure 4.4. This implies that the most preferred of the SMEs legal formation method was sole proprietorship whereas the least preferred was limited companies. This can be attributed to less legal procedures in formation by sole proprietorship. The reason is that the sole proprietorship the entrepreneur is able to exercise full power over the business.

Figure 4.4: Ownership
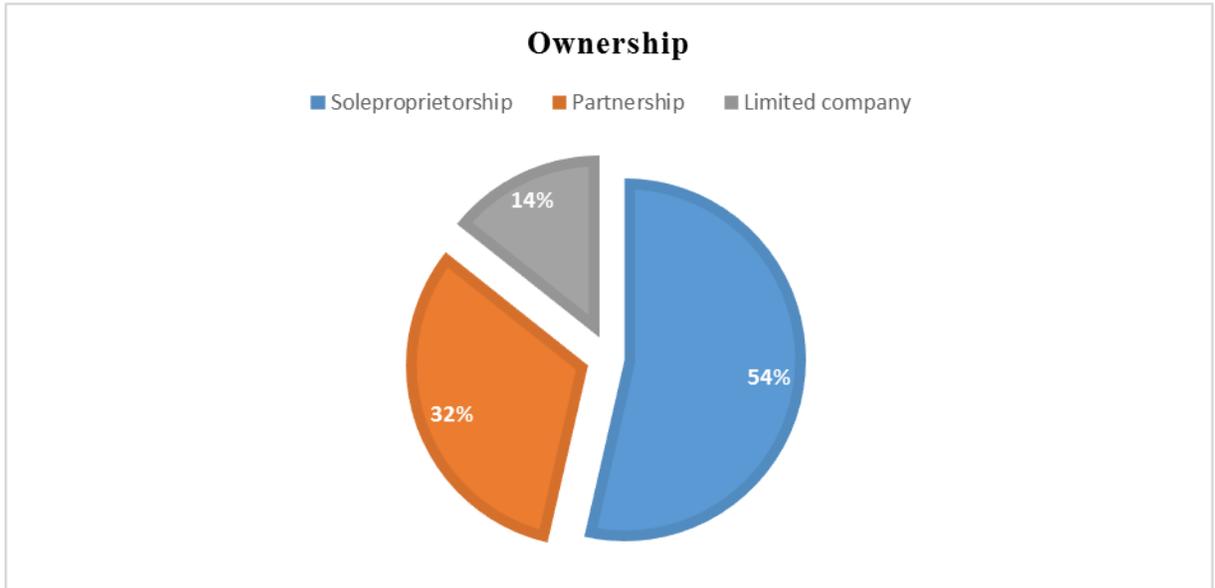
Source: Research Findings (2016)

4.3.5 Number of Employees

The study required to find out the employees numbers in the SMEs. These were the findings as shown by table 4.5 show that 14SMEs had less than 5 employees, 19 had 6-10 employees, 11 had 11-20 employees,10 had 21-50 employees while 2 SMEs were established to have more than 50 employees. This showed that most SMEs had less than 20 employees and which may be due to the small nature of the SMEs. The also the low number of employees may be due to inadequate capital to hire a high number of employees and the SME owners also play a big role in running the SMEs themselves.

Figure 4.5: Number of Employees
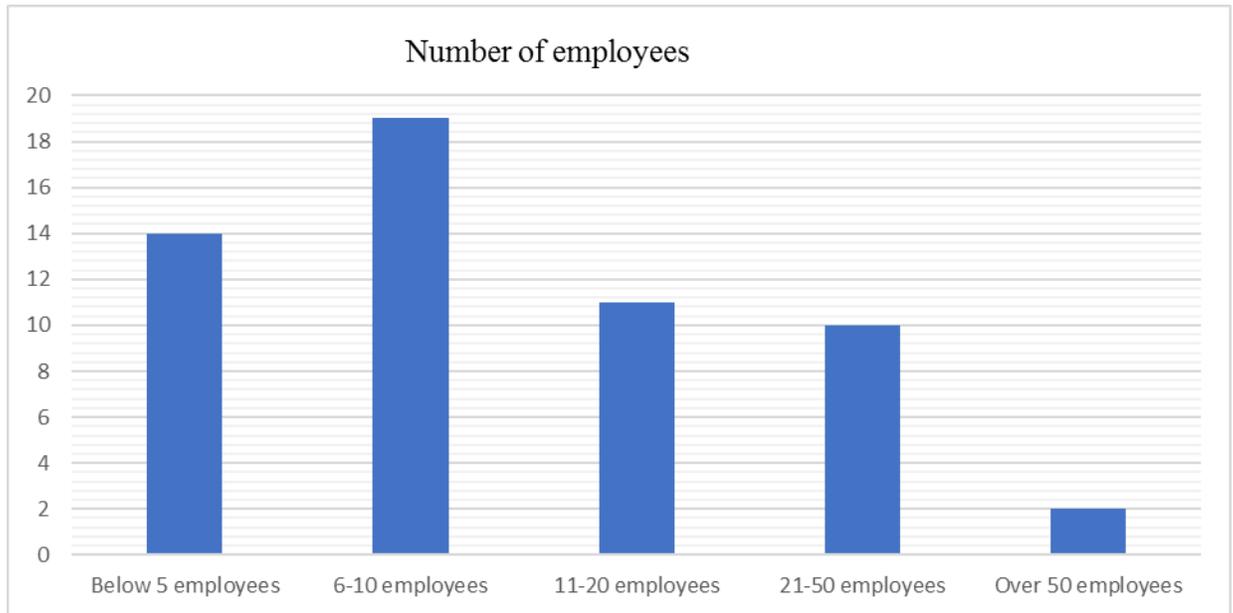
Source: Research Findings (2016)

4.4 Microfinance Institutions Services

4.4.1 Existence of Microfinance Institutions and their services

This section aimed at establishing whether the respondents were knowledgeable o the existence of the various microfinance institutions and their services. The results obtained were affirmative in that all the respondents were aware of the existence of the microfinance institutions. They were thus in a position to provide the required information comprehensively.

Table 4.2: Existence of Microfinance Institutions and their services

	Frequency	Percentage
Yes	56	100%
No	0	-
Total	56	100%

Source: Research Findings (2016)

4.4.2 Services from Microfinance Institutions

The study aimed at establishing the extent of use of various services from microfinance institutions. As illustrated by table 4.2 below, Loans/credit finance had a percentage frequency of 87.50%, Business advice/trainings had 64.28%, and Savings had 83.92%, while Microfinance insurance 57.10%. This thus shows that the most used service is the loans/credit finance. This may be attributed to the fact that most SMEs experience capital insufficiencies in their organizations and thus the services prove to be essential. While the least used service is the microfinance insurance which may be because it's a new concept and is yet to gain popularity among the SMEs.

Table 4.3: Services from Microfinance Institutions

Statement	Frequency	percentage
a) Loans/credit finance	49	87.50%
b) Business advice/trainings	36	64.28%
c) Savings	47	83.92%
d) Microfinance insurance	32	57.10%

Source: Research Findings (2016)

4.4.3 Trainings offered by MFIs

Training entails equipping individuals with the necessary skills to undertake various tasks. The study sought to establish the various training offered by the MFIs. The respondents used a Likert scale of 1-5 to rate the responses whereby 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent. The findings obtained are as illustrated in the table below.

Table 4.4: Trainings offered by MFIs

Statement	Mean	Std. Dev
Basic business skills	3.6	0.102
Capital investment decisions	4.1	0.111
Business risk management	2.9	0.09
Enhances development of sustainable community and social service skills like financial literacy	3.9	0.889

Source: Research Findings (2016)

Capital investment decisions had a mean of 4.1. Enhances development of sustainable community and social service skills like financial literacy with 3.9. Basic business skills had a mean of 3.6. Business risk management with 2.9. This shows that the most dominant skill impacted to the SMEs is on the capital investment decisions. This is because proper capital management will ensure thriving and success of a particular SME. However, risk management skills despite their importance, they were established to be given at a small extent suggesting the need for improvement in that particular sector.

4.4.4 Access to Credit/ Loans by MFIs

Access to credit/ loan enables the SMEs to be able to conduct its operations and expand, without necessarily having enough internal capital. It also enables the SMEs to settle various financial obligations. The study sought to determine the extent the MFIs enable access to credit to the SMEs. The respondents used a Likert scale of 1-5 to rate the responses whereby, 1 =Less favorable; 2=moderately satisfactory; 3= satisfactory; 4=Very satisfactory and 5=Most satisfactory. The results obtained are as shown by the table below.

Table 4.5: Access to Credit/ Loans by MFIs

Statement	mean	std. dev.
The interest rate of the loans offered are optimum	2.9	0.12
MFIs credit facilities are easily accessible and available	3.1	0.313
There is no loan limits on the amount to be given	2.77	1.32
There is easy loan repayment procedures	3.6	1.22

Source: Research Findings (2016)

The findings obtained show that there is easy loan repayment procedures had a mean of 3.6, MFIs credit facilities are easily accessible and available had a mean of 3.1, the interest rate of the loans offered are optimum with 2.9 while there is no loan limits on the amount to be given with 2.77. Thus showing that the preference of the loans by MFIs was due to them having easy loan procedures as compared to the loans given by other financial institutions such as the banks. This is also due to the loans being easily accessible and available. However, there being no loan limit had the lowest mean as it

was established to be moderately satisfactory. This is because, there being no loan limit can make the borrowers be prone to large sums of debts which may be prove rather difficult in repayment.

4.4.5 Savings Enabled by MFIs

This section aimed to investigate how exactly the MFIs have enabled the saving culture among the SMEs. This is owing to the fact that savings are very crucial in any particular organization, with the SMEs included. It helps the management to meet future expenses and fulfil various future plans. The study was aimed at finding out the extent to which savings were enabled by MFIs. The respondents used a Likert scale of 1-5 to rate the responses whereby 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent. The findings obtained are as illustrated in the table below.

Table 4.6: Savings enabled by MFIs.

Statement	mean	std. dev
MFIs savings have contributed in fuelling growth of my Enterprise	3.212	0.163
MFIs savings have contributed in fuelling stability of my Enterprise	4.3	1.246
My Enterprises has been stable and growing without MFIs contributions	3.7	1.111
It has led to motivation for enhancement of earnings from the ongoing activities	2.9	0.989
The savings enable SME to make a greater contribution to household income	3.2	1.001
The overall influence of savings on the financial performance of the SMEs	2.5	0.098

Source: Research Findings (2016)

The results show that MFIs savings have contributed in fuelling stability of my Enterprise with a mean of 4.3. My Enterprises has been stable and growing without MFIs contributions with mean of 3.7. MFIs savings have contributed in fuelling growth of my Enterprise with mean of 3.212. The savings enable SME to make a large portion of household income with mean of 3.2. It has led to motivation for enhancement of earnings from the ongoing activities with mean of 2.9. The overall influence of savings

on the financial performance of the SMEs with mean of 2.5. This thus shows that MFIs savings have contributed in fuelling growth of SMEs to a great extent as it obtained the highest mean. This is attributed to the fact that the money accrued from the savings can be used to undertake multiple tasks and operations hence enhancing the growth of the SME. While its motivation for enhancement of earnings from the ongoing activities was established to be the least use of savings

4.4.6 Micro-Finance Insurance

This section aimed at establishing the micro-finance insurance services to SMEs. The respondents used a Likert Scale to rate the statements. Whereby 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent. The findings obtained are as illustrated in the table below.

Table 4.7: Micro-Finance Insurance

Statement	Mean	Std. Dev
The insurance offered is reliable	3.5	1.0009
There is immediate compensation incase risk occurs	4	0.654
The insurance premiums by the MFIs are affordable	4.2	0.7564
The is less procedures in acquiring the insurance	3.9	1.9902
There is efficiency in risk calculations and compensations	3.7	1.0958

Source: Research Findings (2016)

The insurance premiums by the MFIs are affordable and there being an immediate compensation incase risk occurs had a means of 4.2 and 4, indicating a high extents. There is less procedures in acquiring the insurance had a mean of 3.9. There is efficiency in risk calculations and compensations had a mean of 3.7. While the insurance offered is reliable had a mean of 3.5.This thus shows that the preference to the micro-finance insurance as compared to other loans offered by the insurance firms is due to it, having affordable insurance premiums and offers immediate compensations.

4.5 SME Financial Performance

4.5.1 SMEs Financial Performance

This part was intended at establishing the level of financial performance of the SMEs over the study period. To achieve this, the participants were required to rate the SMEs performance, using Likert scale of 1-5, whereby 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent. The results obtained are as indicated below;

Table 4.8: SMEs Financial Performance

Statement	Mean	Std. dev
Financial performance	3.5	1.0997

Source: Research Findings (2016)

The findings obtained showed that the financial performance of the SMEs had a mean of 3.5.This indicates a moderate extent and that the SMEs are yet to reach their maximum financial performance. Hence, to improve this performance, incorporation of MFIs' services ought to be enhanced more.

4.5.2 MFIs Services Contribution to Financial Performance

This section sought to establish the contribution of MFIs services to financial performance of the SMEs. To achieve this, the respondents were required to rate the statements, using Likert scale of 1-5, whereby 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent. The results obtained are as indicated below;

Table 4.9: MFIs Services Contribution to Financial Performance

Statement	Mean	Std. Dev
Access to loan services contribution to your SMEs financial performance.	4.1	0.223
Access to training contribution to your SMEs financial performance.	3.9	0.114
Access to savings contributed to your SMEs financial performance.	3.7	0.401
Access to microfinance insurance has contributed to your SMEs financial performance.	2.9	1.944

Source: Research Findings (2016)

The findings obtained show that access to loan services contribution to your SMEs financial performance had a mean of 4.1. Access to training contribution to your SMEs financial performance with 3.9. Access to savings contributed to your SMEs financial performance with 3.7. While access to microfinance insurance has contributed to your SMEs financial performance with 2.9. This thus shows that access to loan services had the greatest impact to the financial performance while access to microfinance insurance had the least impact to the financial performance.

4.5.3 Overall Effect of Microfinance Institutions Services on the Financial Performance of SMEs

This section ought to establish the overall effect of microfinance institutions services on the financial performance of SMEs. The results obtained showed that 89% of the respondents stated a positive effect, 6% on the no effect at all while 5% on negative effect. This thus showed that majority of the respondents argued the microfinance institutions services to impact positively to the financial performance of SMEs. This is majorly due to the various services provided by the firms.

Table 4.10: Overall Effect of Microfinance Institutions Services on the Financial Performance of SMEs

Statement	Percentage
Positive effect	89%
Negative effect	5%
No effect at all	6%
Total	100%

Source: Research Findings (2016)

4.6 Descriptive Statistics

This shows the statistically the mean, minimum and maximum of various firm relations over the 5 year period (2011-2015), as represented in below.

Table 4.11: Summary of Statistics

	N	Minimum	Maximum	Mean
SME performance	56	1.1023	1.1178	1.0668
Training	56	1.4324	1.6599	1.3749
Microfinance Insurance	56	0.0974	0.1424	0.1014
Loans	56	0.8894	28.0221	16.3691
Savings	56	1.6232	10.3137	9.1360
Valid N (list wise)	56			

Source: Research Findings (2016)

The findings show that the loans among the SMEs has increased the most while the microfinance insurance have increased the least having a mean of 16.3691 and 0.1014 respectively. The increase in loans could be as a result of increase in need form more funds among the SME owners in the area. This has helped in filling the capital insufficiency that existed initially. Additionally, the in SME performance has increased over the years having highest growth of 1.1023 in 2015 from the annual growth of 1.1178 thus having an annual growth in sales mean of 1.0668. While the trainings received have increased by a mean of 1.3749 over the five year period.

4.7 Correlation Analysis

Correlation analysis was used to discover the relationship between at least two sets of variables. It also tells the course as well as how much relationship exist between these variables. In this study we used Pearson's coefficient of connection which is a standout amongst the most well known methods to measure the relationship between variables. Table 4.12 gives the relationship between various sets of variables.

Table 4.12: Correlation Analysis

		Annual growth in sales	Loan received	Savings	Training	Legal composition
SME performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Loan received	Pearson Correlation	-0.4564	1			
	Sig. (2-tailed)	0.0004				
Savings	Pearson Correlation	-0.664	0.6556	1		
	Sig. (2-tailed)	0.0500	0.0000			
Training	Pearson Correlation	-0.3259	0.5312	0.6425	1	
	Sig. (2-tailed)	0.0000	0.0000	0.0000		
Legal composition	Pearson Correlation	0.2681	0.0465	-0.1772	-0.1423	1
	Sig. (2-tailed)	0.0786	0.4967	0.0725	0.4187	
Microinsurance finance	Pearson Correlation	0.0079	-0.1062	0.0950	0.0652	-0.0078
	Sig. (2-tailed)	0.6570	0.4006	0.655	0.4678	0.7395
	N	56	56	56	56	56

Source: Research Findings (2016)

As illustrated by the table above, Loans received are negatively related to SMEs performance. This is shown by the coefficient of correlation of -0.4564. This means an increase in the loans received would result in the decrease in performance of the SMEs. Similarly, savings and training also have a negative relation with the SME performance as the obtained correlations of -0.664, and -0.3259 respectively. The legal composition and micro-insurance finance on the other hand have a positive relation with the SME performance. This is shows by their coefficient of correlations of 0.2681 and 0.0079. This implies that this variable has a possibility of impacting positively on the financial performance of the SMEs.

4.8 Regression Analysis

The coefficient of correlation of 0.8704 in table 4.13 below shows a strong positive relationship between the dependent and independent variables. The coefficient of determination of 0.8124 implies that the model obtained accounts for up to 81% of the changes in performance of SMEs. Hence, 19% of the changes in performance of SMEs are accounted by factors other than the ones named above.

Table 4.13: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.8704	0.8124	0.7902	0.0006

a. Predictors: (Constant), Micro-finance insurance, Legal composition, Loan received, Savings, Training.

Source: Research Findings (2016)

Table 4.14 below provides the results from which the overall usefulness of the regression model was evaluated. The F ratio had a value of 27.2107 with a significance level of 0.0002. Since 0.0002 is lesser than 0.05, the regression results were significant at the 5% level of significance. This depicts that the regression model was significant at 95% confidence level.

Table 4.14: Analysis of Variance

	Sum of squares	Df	Mean Square	F	Sig.
Regression	0.0096	5	0.0024	27.2107	0.0002
Residual	0.0057	51	0.0016		
Total	0.0152	56			

a. Predictors: (Constant), Micro-finance insurance, Legal composition, loan received, Savings, Training

b. Dependent Variable: changes in performance of SMEs

The model coefficient as shown in table 4.15 below. The model coefficients show that micro-finance insurance and legal compositions are the only ones with positive effect on the SMEs performance. Savings have the highest effect on SME's growth, followed by loans received and finally training. The model thus developed was;

$Y=0.5610-0.0223X_1--12.0961X_2--0.0056X_3+0.0023X_4 + 0.0004 X_5+ \varepsilon$

Where; Y is SME growth, X1 is the amount of microloan received by the SMEs as a percentage of net assets, X2 is total savings done by the SMEs in microfinance institutions as percentage of net assets, X3 is number of trainings received by SMEs from microfinance institutions per year, X4 is the legal composition of the SME and X5 is the micro-finance insurance.

Table 4.15: Model Coefficients

	Unstandardized Coefficients	Std. Error	Beta	T	Sig.
(Constant)	0.5610	0.2301		2.3631	0.0014
Loan received	-0.0223	0.0077	-0.1162	-2.1065	0.0621
Savings	-12.0961	8.6714	-0.4725	-1.2023	0.0699
Training	-0.0056	0.0006	-0.2288	-1.3205	0.1102
Legal composition	0.0023	0.0051	0.0888	1.1493	0.1231
Micro-finance insurance	0.0004	0.0021	0.0166	0.1325	0.7772

a. Dependent Variable: SMEs performance

4.9 Discussion of Research Findings

The research aimed at studying the effect of microfinance institution services on the performance of SMEs in the Nairobi. The findings established that the County received an equal distribution of the various microfinance services (loans, savings, micro-finance insurance and training) but the effect the services had on the SMEs were diversified. The results obtained showed that the most used service is the loans/credit finance. While the least used service is the microfinance insurance which may be because it's a new concept and is yet to gain popularity among the SMEs. These findings concur with those of Mwenda, and Muuka, (2004) in their study on the best practices for finance institutions engagement in Africa rural areas.

The descriptive statistics of the five year period (2011-2015) indicate the loans among the SMEs has increased the most while the microfinance insurance have increased the least having a mean of 16.3691 and 0.1014 respectively. The increase in loans could be as a result of increase in need form more funds among the SMEs. The correlation analysis revealed that the relation between the variables varied with the type of the variables. Most of the variables apart from the legal composition and micro-finance insurance were found out to have a negative relation. The legal composition and micro-insurance finance on the other hand have a positive relations with the SME performance. This is shows by their coefficient of correlations of 0.2681 and 0.0079. This may be linked to those SMEs which argued that the performance of the SMEs was contributed majorly by other factors rather than microfinance institution services.

The effect of the variables combined had a strong relationship with SMEs financial performance as shown by a coefficient of correlation of 0.8704. The co-efficient of determination of 0.81 implied that the model obtained accounted up to 81% of the changes in growth of SMEs of which the effect was significant, as shown by a value of 0.0002 which is less than 0.05.The model co-efficient showed that only micro-finance insurance and the legal compositions had a positive effect on the SME's performance. Savings had the highest effect on SME's growth, followed by loans received and finally training.

$$Y=0.5610-0.0223X_1--12.0961X_2--0.0056X_3+0.0023X_4 + 0.0004 X_5+ \varepsilon$$

Where; Y is SME growth, X1 is the amount of microloan received by the SMEs as a percentage of net assets, X2 is total savings done by the SMEs in microfinance institutions as percentage of net assets, X3 is number of trainings received by SMEs from microfinance institutions per year, X4 is the legal composition of the SME and X5 is the micro-finance insurance. The study results were consistent with those of Naomi, (2013) and Olowe et al, (2013) who also found that the effect of macroeconomic variables could either be positive or negative depending on which variable is being considered.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This section covers three aspects. The discussion of the findings presented above, the conclusion that is drawn from these findings, as well as the recommendations from the overall research. These are geared towards addressing the objectives of the study.

5.2 Summary of Findings

The study sought to establish the various services offered by microfinance institutions to SMEs in the Nairobi. The findings established that the County received an equal distribution of the various microfinance services (loans, savings, micro-finance insurance and training) but the effect the services had on the SMEs were diversified. They all had a frequency of 56. The results obtained showed that the most used service is the loans/credit finance having a frequency of 87.50%. While the least used service is the microfinance insurance with a frequency of 57.10%.Additionally, the descriptive statistics of the five year period (2011-2015) indicate the loans among the SMEs has increased the most while the microfinance insurance have increased the least having a mean of 16.3691 and 0.1014 respectively.

The study is geared towards finding the relationship that existed between the study variables, which entailed; dependent (microfinance services) and independent variables (performance of SMEs).Correlation analysis was used to find the relationship. Most of the variables apart from the legal composition and micro-finance insurance were found out to have a negative relation. Loans received are negatively related to SMEs performance as shown by the coefficient of correlation of -0.4564. This means an increase in the loans received would result in the decrease in performance of the SMEs. Similarly, savings and training also have negative relations with the SME performance as the obtained correlations of -0.664, and -0.3259 respectively.

The study was also conducted so as to determine the effect the microfinance services had on the SMEs financial performance. The results obtained showed that, the effect of the variables combined had a strong relationship with SMEs financial performance as shown by a coefficient of correlation of 0.8704. The co-efficient of determination of 0.81

implied that the model obtained accounted up to 81% of the changes in growth of SMEs of which the effect was significant, as shown by a value of 0.0002 which is less than 0.05.The model co-efficient showed that only micro-finance insurance and the legal compositions had a positive effect on the SME's performance. Savings had the highest effect on SME's growth, followed by loans received and finally training.

$$Y=0.5610-0.0223X_1--12.0961X_2--0.0056X_3+0.0023X_4 + 0.0004 X_5+ \varepsilon$$

Where; Y is SME growth, X1 is the amount of microloan received by the SMEs as a percentage of net assets, X2 is total savings done by the SMEs in microfinance institutions as percentage of net assets, X3 is number of trainings received by SMEs from microfinance institutions per year, X4 is the legal composition of the SME and X5 is the micro-finance insurance. The positive influence that exists between the variables is supported by 89% of the respondents stating a positive effect between microfinance services and SMEs performance.

5.3   Conclusions

The study concludes that the SMEs in Nairobi all receive microfinance services such as training, loans, savings and microfinance loans. This microfinance services have played a great role in enhancing the growth of SMEs through providing finances and business skills. Similarly the study concludes, based on the descriptive statistics that loans among the SMEs has increased the most while the microfinance insurance have increased the least having a mean of 16.3691 and 0.1014 respectively.

Based on the study findings, the study concludes that there exists a strong positive relationship between the variables with a coefficient of correlation of 0.7928. This is also supported by majority of the respondents (89%) also being in line with there a positive effect. Additionally, the study also makes the conclusion that each service offered by the microfinance institution impacts differently, with some having positive impacts while others having negative impacts. The studies also conclude that savings have the highest effect on SME's performance followed by loans received and finally training.

5.4 Limitations of the Study

The study was only concentrated on SMEs in Nairobi's CBD of which this cannot be a representative of all SMEs in Kenya or other localities. In addition the sample size of 56 SMEs was small but manageable with the resources and time available. However to make better conclusions, increasing the SMEs to more than 15% of the entire population would be more representative.

Additionally, the respondents were reluctant to provide information. This was due to confidentiality fears on the provided information. However, the researcher made efforts to assure the respondents on the confidentiality in use of information provided and that it was entirely for only academic use. Also due to strict internal policies on sharing financial information, the researcher had to do follow ups and seek such permission from the SMEs top management.

5.5   Suggestions for Further Research

This study used a small sample of SMEs to represent the SMEs in the Nairobi due to inadequate resources and human capacity. With availability of more resources, further research is recommended using a large sample since the study only used 56 SMEs which cannot be representative of all SMEs in Nairobi informal settlement as there are over 50,000 SMEs. Also, since this study only limited itself to the SMEs in Nairobi, the same may not have been a representative of SMEs in informal settlements in other parts of the country. The study thus recommends a similar study to be conducted covering other parts of the country to enable generalization of the results.

The study was only limited to few factors of microfinance institution services. So as to enable comprehensive generalization of the study's findings, more variables should be incorporated in the future studies. This will enhance distinctive determination on the relation between the variables and confirm the factor loadings in different SMEs so as to establish the validity and strength of the relationship that exists.

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Appendix I: Questionnaire

This purpose of this questionnaire is to collect data for purely academic purposes. The study seeks to determine the effect of microfinance institutions services on the financial performance of SMEs in Nairobi County. All information will be treated as confidential. Please do not put any form of identification on this questionnaire.

SECTION A: BACKGROUND INFORMATION

1. **Please indicate the location from which you operate …………………….**

2. **Which business sector does your SME business belongs to?**

   a) Manufacturing   (   )

   b) Trade   (   )

   c) Service   (   )

3. **For how long has your firm been in operation?**

   a) Less than 2 years   (   )

   b) 2–4 years   (   )

   c) 5-8 years   (   )

   d) 8-10 years   (   )

   e) More than 10 years   (   )

   Please specify the exact years as at December 2015…………………….......

4. **What is your current position in the business?**

   a) Owner   (   )

   b) Partner   (   )

   c) Line Manager   (   )

   d) Director   (   )

   e) Other Staff   (   )

5. **What is the legal formation of the SME?**

   a) Sole proprietorship   (   )

   b) Partnership   (   )

   c) Limited company   (   )

6. **What is the current SME number of employees**

   a) Below 5   (   )

b) 6-10   (   )

c) 11-20   (   )

d) 21-50   (   )

e) Over 50   (   )

SECTION B: MICROFINANCE INSTITUTIONS SERVICES

7. Are you aware of the existence of Microfinance Institutions and the services they offer to SMEs?

Yes (   )   No (   )

I no please specify why

…………………………………………………………………………………………

Which of the following services does your firm receive from microfinance institutions:

a) Loans/credit finance   (   )

b) Business advice/trainings   (   )

c) Savings   (   )

d) Others   (   )

If others, please list them

………………………………………………………………………………

8. In a scale of 1-5, rate how the following skills have been impacted by the trainings offered any by MFIs. Note 1 =very small extent; 2=small extent; 3= moderate ;4=large extent and 5=very large extent

Statement	1	2	3	4	5
Basic business skills					
Capital investment decisions					
Business risk management					
Trainings enables the SME to become economic agents of change by increasing their income, productivity and decision making power					
Enhances development of sustainable community and social service skills like financial literacy					
Other skills…. (Please specify)					

9. In a scale of 1-5, rate the below in respect to access to credit/ loans by MFIs. Note 1 =Less favorable; 2=moderately satisfactory;3= satisfactory;4=Very satisfactory and 5=Most satisfactory

Statement	1	2	3	4	5
The interest rate of the loans offered are optimum					
MFIs credit facilities are easily accessible and available					
There is no loan limits on the amount to be given					
There is easy loan repayment procedures					
The credit facilities have increased the amount of capital available for production and expansion of the SMEs					

10. In a scale of 1-5, rate the below impacts of the savings enabled by MFIs. Note 1 =very small extent; 2=small extent; 3= moderate; 4=large extent and 5=very large extent.

Statement	1	2	3	4	5
MFIs savings have contributed in fuelling growth of my Enterprise					
MFIs savings have contributed in fuelling stability of my Enterprise					
My Enterprises has been stable and growing without MFIs contributions					
It has led to motivation for enhancement of earnings from the ongoing activities					
The savings enable SME to make a greater contribution to household income					
The overall influence of savings on the financial performance of the SMEs					

SECTION C: SME FINANCIAL PEFRORMANCE

11. Please indicate the following in relation to your firm as in the below table.

Year	2015 %	2014 %	2013 %	2012 %	2011 %
Percentage annual growth in sales					
Amount of microloan received as a percentage of net assets					
Amount of saving mobilized through MFI as a percentage of net assets					
Number of training offered					

12. How would you rate your SMEs financial performance? Note 1 =very small extent; 2=small extent; 3= moderate ;4=large extent and 5=very large extent

Status	1	2	3	4	5
Financial performance					

13. In a scale of 1-5, rate the below the extent that MFIs services have contributed to your financial performance. Note 1 =very small extent; 2=small extent; 3= moderate ;4=large extent and 5=very large extent

Statement	1	2	3	4	5
Access to loan services contribution to your SMEs financial performance.					
Access to training contribution to your SMEs financial performance.					
Access to savings contributed to your SMEs financial performance.					

14. In your own opinion, what is the overall effect of microfinance institutions services on the financial performance of SMEs?

   a) Positive effect (   )

   b) Negative effect (   )

   c) No effect at all (   )

Thank you for your co-operation

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