MICRO CREDIT FINANCE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NYAMIRA TOWN, KENYA

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A Thesis submitted in partial fulfillment of the Requirements for the Award of the Degree of Masters in Business Administration (Finance Option) of Masinde Muliro University of Science and Technology

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DECLARATION

This thesis is my original work and it has not been presented for a degree or award to any other University. All sources of information have been acknowledged by means of references.

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CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance of Masinde Muliro University of Science and Technology a thesis entitled ***"Micro Credit Finance and Financial Performance of Small and Medium Enterprises in Nyamira Town, Kenya."***

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DEDICATION

I would like to dedicate this thesisto God, my family members, and the supervisors who made this research proposal successful.

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Special gratitude goes to our Almighty God for seeing me through this thesis. I would like to acknowledge my supervisors Mr. Albert Odhiambo and Dr. Benedict Alala for their tremendous effort, guidance, encouragement, and piece of advice, never outgoing patience and remarkable comments throughout my academic journey.

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ABSTRACT

The critical role played by small and medium enterprises in growing economy cannot be underestimated. Small and Medium Enterprises (SMEs) are characterized by rapid growth and the potential to create employment and boost the GDP. Performance of Small and Medium Enterprises (SMEs) are signs of economic growth in many counties in Kenya and beyond. Although there has been improved access to credit by SMEs overtime, SMEs have continued to suffer financial challenges. Existing research indicates that 50% of the SMEs operate in a financial deficit and some of the SME owners are still uncomfortable with such credit extended to them. Therefore the general objective of the study was to analyze Micro Credit Finance and Financial Performance of small and medium enterprises in Nyamira Town, Kenya. The specific objectives were to; determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, establish the effect of microfinance saving on financial performance of SMEs in Nyamira Town, assess the effect of microfinance insurance on financial performance of SMEs in Nyamira Town, and to establish the moderating effect of size on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya. To achieve the objectives of the study, null hypotheses was developed and tested. The developed hypotheses was: there is no significant effect of microfinance loans, savings and insurance on financial performance of SMEs and Business size has no significant effect on the relationship between micro credit finance and financial performance of SMEs. The study employed correlation research design. The target population was 550 registered SMEs as per register records Trade Department in Nyamira County. The study sampled 232 owners of SMEs through stratified random sampling technique. Primary data was gathered by use of questionnaires. Data was analyzed by use of descriptive and inferential statistical methods. The test creterio was set such that the study rejected the null hypothesis if the t-statistic value was significant. Validity and reliability of research instruments was conducted with the aid of piloy study. Data was presented by use of tables and figures. The study will be of significance to the County Government of Nyamira so as to develop SMEs in the County for enhanced county revenue collection. The study found out that Micro Credit Finance is positively and significantly related to financial performance of SMEs. The study results imply that microfinance loans had a higher positive and significant relationship on financial performance with a person coefficient (r) of 0.604 followed by microfinance insurance and microfinance saving, r of 0.595 and 0.570 respectively. The study also found out that business size plays a greater moderating effect on the relationship between micro credit finance and financial performance of SMEs. The study therefore rejected the null hypotheses and concluded that microfinance loans, microfinance insurance and microfinance saving had a positive and significant effect on financial performance of SMEs in Nyamira Town. The study thus recommends that SMEs should consider taking loans so as to expand their business and enhance financial performance. This can be undertaken through; favourable loan repayment terms by financial insitutions and reduction of loan application fees. It is also recommended that SMEs should insure their business and expand their savings so as to realize improved financial performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP:	Gross Domestic Product
KWFT:	Kenya Women Finance Trust
MCI:	Micro Credit Institution
MCIs:	Micro Credit Institutions
NACOST:	National Commission for Science, Technology and Innovation
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
UNDP:	United Nations Development Programmes

OPERATIONAL DEFINITION OF TERMS

Credit: The trust which allows one party to provide resources to another party where the second party does not reimburse the first party immediately but instead arranges either to repay or return those resources at a later date.

Entrepreneurship: It is the act of being an entrepreneur. An entrepreneur is one who undertakes innovations, finance and business acumen in an effort to transform innovations into economics goods.

Expertise: It is a reliable source of technique or skill, whose faculty for judging or deciding rightly or wisely is accorded authority and status by their peers or the public in a specific well distinguished domain.

Financial Performance: A measure of the growth of SMEs in terms of profit and sales

Low Income Earners: Low income people who are interested in small loans to finance the income generating activities.

Micro-Credit: It is the extension of very small loans in poverty stricken people designed to spur entrepreneurship

Micro-Finance: **S**mall loans while micro finance is the provision of credit to the poor which involves addition noncredit financial services such as savings, insurance, pension and payment services

Small & Medium Enterprise: Manufacturing or non-manufacturing service enterprises in which the owner manager is not necessarily actively engaged in production but performs the various tasks involved in the guidance and leadership without the help of a specialized staff.

Small Business: A small business is a business that is privately owned and operated, with small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Small and medium enterprises play avery critical role in a growing economy . The Small and medium enterprises (SME's) are characterized by rapid growth and the potential to create employment and boost the gross domestic product (GDP) of and economy (Aremu and Adeyemi, 2011). SME's play a similar role even in developed economies ,and this is shown in various studies. Stability of economies in developed countries like Japan and Taiwan can be directly credited to their large SME sectors, Switzerland a highly developed country recorded a 2% to 2.5% growth rate each year from 2008 through to 2012 (Guo and Woo, 2016). This economic stability experienced by Switzerland is credited on the fact that the country has invested significantly on efficient small and medium sized companies (SME) alongside the large, competitive multinationals. The situation was different from the rest of Europe which had much of its investment in large multinationals that focused on the export market (Guo and Woo, 2016).

In Africa the contribution of the SME sector to creating opportunities is very significant. Its contribution in the informal sector, is especially large accounting for about 75% of total employment in manufacturing (Giaoutzi, Nijkam and Storey, 2016).The significance of SMEs in Kenya highlight the SME sector as an engine for employment and income growth. SMEs count for nearly 85% percent of employment (Cagno and Trianni, 2013). Financing for SMEs in developing countries like Kenya is mainly concentrated on bank loans, micro finance institutions and trade credit (Gbandi, and Amissah, 2014).

Commercial banks are a principal source of finance for SMEs' according to Rungani (2009) . Commercial banks offer SMEs' a wide range of services through wholly or partially owned subsidiaries.

In other cases SMEs who are the members of SME representative societies or enterprises such as the Chamber of Commerce youth group or women group have a high probability of accessing finance from the financing organizations. According to Pandula (2011) these societies have close contacts and relationships with SME owners/managers and are aware of the problems and needs of their members. Therefore, these societies and other business associations can play a key role in assisting their members to access bank loans from banks (Pandula, 2011). However, access to credit is still a challenge to most SMEs, especially those in developing economies and it is also still a key issue both within the private and public sector. In Kenya, the lack of adequate access to credit is the leading factor stifling the good performance of small and medium enterprises (Wanjohi and Mugure, 2015).

Hogan (2010) asserts that the financial sector focuses its success on the effective management of credit risk. Most Small and Medium enterprises in Kenya and East Africa however fall under the informal sector which is characterized by fluctuating income and may be hard to monitor, making them non -viable for loans from the banking sector. Micro entrepreneurs also engage in economic activities which may yield a low turnover.Besides the cumbersome lending processes,the biggest obstacle in access to credit for SMEs is the very challenging criteria of financial institutions. This has led many Small and Medium enterprises to shift to informal financial institutions such as savings and loans firms, friends and relatives who may not be able to establish savings

and lending associations such as the Chambers. These organizations fall under the Umbrella group referred to as Micro Credit Institutions (MCI's).

The importance of Small and Medium Enterprises in the economies has been recognized by many including Kenya Economic Survey (2017). Government policy making for SMEs is focused on varying social and customary principles,industrial scale and market conditions from established to emerging economies,from country to country vary from advanced economies to developing countries and from country to country (Naudé, Szirmai and Goedhuys, 2011). In particularSathe (2016) argues that Government regulations and their bureaucratic procedures can impede SMEs activity such as formation of new companies and their promotion.Politics to improve and promote good product performance can be built by the State.This can come through policies that can boost and support the good performance of those products. On the other hand, Government can likewise seem to impede the success of Small and Medium- sized companies in implementing policies that restrict the autonomy, as well as the entrepreneurial freedom .

Indersta and Mueller (2007) notes that collateral protects the lender if the borrower defaults. Increase in enterprise's collateral relaxes the credit constraints faced by the firm, facilitating the firm to borrow more. A well-developed microcredit system can help SMEs to access affordable credit services particularly if the collateral requirement is affordable (Alhassan and Hoedoafia, 2016). According to their gross loan portfolio, the five largest institutions include Equity bank which is a licensed commercial bank that provides financial services.

Rafiki Microfinance Bank Limited is the premier relationship microfinance institution that began operations in 2011. The microfinance providesemergency loans, which are quickly available. Most of small and medium enterprises do not have access to finance due to lack of minimum requirements from commercial banks in Kenya, most commercial banks have been hesitant in lending to the small business due to lack of collateral, credit history, financial statement and banking history. Access to final finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities Kauffmann, (2010). In a recent study, Atieno (2016) found that although informal finance provides easier access to credit, it is confined to specific activities and at lower levels of income, thus limiting its use. Banks need to address the needs of these SMEs so that they can post good performance and therefore be a major driver in the growth of the economy. Banks such as Kenya commercial bank, Co-operative bank, Equity bank and Micro finance institutions line Rafiki micro finance have tailored their products to suit the surging demand for different loans and micro credit.

Kenya Women Microfinance Bank (KWFT) serves a unique market niche as reflected in the Institution's slogan 'Banking on women'. With 80% of KWFT's clients residing in the rural areas, the Institution has made a deliberate effort to reduce inequalities and enhance financial inclusion by ensuring that its operations reach far and wide to provide equal opportunities to all women and their families around the country. Performance is an important variable in business research as noted by (Rosenbusch, Rauch and Unger, 2015). Irrespective of the differences among researchers on what the definition of performance is, they agree that it is mostly tied in with arithmetic means for success. The

SME firm performance is regulated along the lucky outcome of firms in the market, each domestically, and globally.

1.2 Statement of the Research Problem

The provision of financial services, especially credit and saving facilities plays an important role in the development of the economy. However,despite the efforts of microfinance institutions to take the conventional formal financial system, Small and Medium Enterprise sector has not shown any sign of Success in performance (Kenya Economic Survey, 2009). Despite the efforts of microfinance institutions such as Kenya Women Finance Trust and Equity Bank among others to take microcredit within the reach of Small and Medium Enterprises,the SMEs don't exhibit having benefited from the conventional formal financial system. For example better performance and expansion of Small and Medium Enterprises.

The Small and Medium Enterprises fail in accessing the financing and as a result they are left unattended and this lead to their poor performance (Akinyi ,2009).It is in this context that the study sought to establish the effect of Micro Credit Finance and the performance of SMEs. In Kenya many SMEs' are left un-attended to due to the Kenya limited finances available (Akinyi, 2009). Although the Microfinance Act of 2006 which incorporates amendments up to 1st January 2014, stipulates the operations of MCIs in Kenya many SMEs have not accessed lending and those that have acquired loans from Micro Credit Institutions find it expensive to pay (Makokha, 2016).

Small and Medium enterprises that have accessed credit are still making losses (Kauffman, 2015). It appears that even though there is the access the funds are either mismanaged or used for other purposes other than the intended ones. However, some

businesses survive and perform well in terms of market share and market stability as a result of these micro-credit services availed.

Although there has been improved access to credit by SMEs overtime, SMEs have continued to suffer financial challenges. For this study, existing researches indicate that 50% of the SMEs operate in a financial deficit and some of the SME owners are still uncomfortable with such credit extended to them (Sendawula, 2012). The SMEs have registered a low return on capital employed, low net profit margin and kept a small capital size and some of them fail to run their daily operations because they do not have the capacity to maintain adequate liquidity levels (Chowdhury, 2016).

As such, the relationship between the Micro Credit Finance and SMEs continue to worsen due to failure to fulfill their loan obligations (O'Brien 2017). This could be due to the strict credit conditions among others which may hinder business financially, which include interest rates, collateral securities and loan repayment schedules among others which seem to frustrate businesses financially.

Emmanuel and Nneji (2015) conducted a study on savings facility of microfinance on SMEs growth and performance in Nigeria. The study found out that there is a significant impact of savings facility of microfinance on SMEs growth and performance in Nigeria. Cobbinah and Manu, (2013) examines the effects and the responsibilities of microfinance on the growth of SMEs in rural Ghana. The study revealed that there is a positive relationship between the savings offered by microfinance and the growth of SMEs in Ghana. These studies have been conducted in Ghana and Nigerial with few is any studies

conducted in Kenya. The current study was conducted in Kenya perticulary in Nyamira Town and also used financial performance as a dependent variable.

In regard to insurance and financial performance, Thorpe (2004) conducted a study on business relationship between SMEs and insurance companies in UK. The study found out that most SMEs have a tendency not to insure their businesses which becomes a problem. Also Mwangi (2011) Nigeria Cornerstone companies seeks growth of SMEs Through Insurance Support. The current study focused on microcredit finance and financial performance.

In order to fill in the eminent gaps, this study ascertained the influence of micro credit finance on financial performance of small and medium enterprises in Nyamira Town, Kenya.

1.3 Purpose of the Study

The general objective of the study was to establish the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya.

1.4 Objectives of the Study

i. To determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, Kenya.
ii. To establish the extent to which ease of microfinance savings affects financial performance of SMEs in Nyamira Town, Kenya.
iii. To assess the effect of microfinance insurance on financial performance of SMEs in Nyamira Town, Kenya.

iv. To establish the moderating effect of size of business on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.

1.5 Research Hypotheses

H_{o1}. Microfinance loan has no significant effect on financial performance of SMEs in Nyamira Town, Kenya.

H_{o2}. Microfinance saving has no significant effect on financial performance of SMEs in Nyamira Town, Kenya.

H_{o3}. Microfinance insurance has no significant effect on financial performance of SMEs in Nyamira Town, Kenya.

H_{o4}. Business size has no significant effect on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.

1.6 Significance of the Study

The study will be useful to SMEs in assessing the impact they have had in financing SME's and provide a platform for future innovations in the financial sector to facilitate their contributions to the SME sector.

The study will provide information on debt rating of SMES, and conditions for SME and entrepreneurship financing that may be resourceful for policy makers in the financial sector to come up with more suitable financial solutions for SME's

Since SME's are crucial in ensuring sustainable and inclusive growth of an economy, their role in development is critical in enabling governments create employment for its citizens. SME's can only achieve this role if they are provided necessary finance to and

grow their business. Governments play a critical role in ensuring SME's have access to capital and information provided in this document will enable the government addressing recurrent structural issues in Financing SME's to ensure the continuity of these ventures (OECD Publishing, 2014).

Researchers will be able to use this document as a source of information in future studies when examining performance of SME's as a result of micro credit finance.

1.7 Scope of the Study

The main aim of this research was to examine the effect of Micro Finance Credit finance on the financial performance of SME's in Nyamira Town. The study focused on SMEs engaged in manufacturing, trade and service businesses. The study was carried out for a three month period from July to September, 2019. The sample of the study was based on the registered SMEs in Nyamira Town, Kenya which according to statistics is 550. The location of the study was wide enough and served with necessary infrastructure like roads and telephone network.

1.8 Limitation of the Study

The researcher faced difficulties in administering questionnaires from participants in the study. The researcher booked appointment and did a follow up to allow adequate response rate from the respondents.

Different organizations have different rules and regulations. Accessing the required information posed a challenge. However the researcher had indulgence and permission of the management of such organizations. The researcher also assured the organizations responding to the questionnaires that, the study is only for academic purpose.

1.9 Conceptual Framework

Figure 1.1 presents a graphical diagram on the practices of micro credit finance and financial performance of SMEs. The study independent variable was micro credit finance consisting of microfinance loan, saving and insurance. The dependent variable was financial performance indicated by business turnover, profitability, and capital accumulation. The study moderating variable was business size indicated by; asset leve and number of branches.

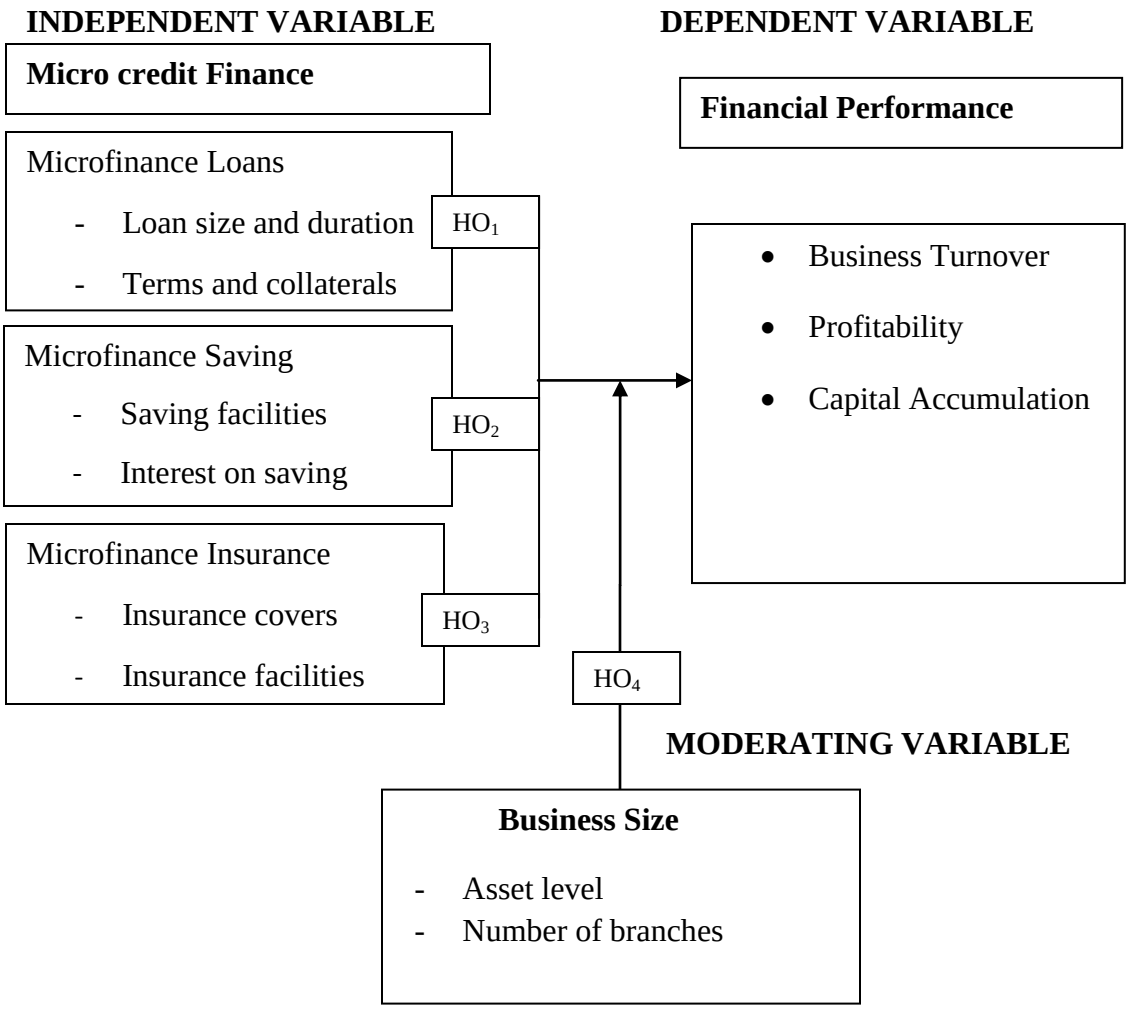

Figure 1. 1: Conceptual Framework

Source: Researcher (2019)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents pertinent literature related to this study. The theoretical framework reviews the theories that underpin the study. This is followed by theoretical review of study concepts. The empirical literature discusses the relationship between the study variables. Finally, the study discusses the literature review matrix.

2.2 Theoretical Framework

The study will be guided by three main theories. These theries are Financial Sustainability Theory, Games Theory of Microfinance, and Women Empowerment Theory. Financial sustainability theory was the main theory anchoring the study because micro finance credit are majorly meant the sustain the SMEs financially for a long period of time.

2.2.1 Financial Sustainability Theory

Long-term survival and sustainability is critical for an MFI in being able to reach its target clientele and cover administrative and other costs. While social goals of financing SMEs are valid, sustainable standing on one's own feet is as true for SMEs receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs while external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch, 2005). This theory anchored the general study objective. It also supported objective two and three. For business to be sustainable for a loan future, they rely on loans and savings

which are products of micro finance credits. Sustainability is measured interms of continuous financial performance of SMEs.

2.2.2 Games Theory of Microfinance

The microfinance games theory also supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves. It is based on Grameen lending model of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven. Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network (Ledgewood, 1999). Since game theory is on group leading, it supports study objective one on microfinance loans for financial performance of SMEs.

2.2.3 Women Empowerment Theory

Cheston, Susy, Kuhn and Lisa (2002) propagated the theory of empowerment. The theory indicates that women account for nearly 74% of the more than 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent payment recormds in spite of the daily hardships they face. Financial self-sustainability paradigm: The main consideration in programme design is provision of financially self-sustainable microfinance services to many SMEs. The focus is on setting of interest rates right to cover costs, to separate microfinance from

other interventions, to enhance separate accounting, to expand programmes so as to capture economies of scale to use group to decrease cost of delivery.

The main considerations in financing SMEs are poverty reduction among the small and medium businesses, increased well-being and community development. The focus is on small savings and loans, provision for consumption and group formation. The assumption is that increasing women's access to microfinance increase household income which then translate into improved well-being and enable women to bring about wider change in business of SMEs (Khan, 2010). The theory supports women involvement in business hence encourages taking of loans and insurance thus guides objective study objective three and four.

2.3 Theoretical Review

2.3.1 Growth and Development of SMEs

SMEs play a key role in the world economy and contribute substantially to income, output and employment. However, the recent global financial crisis created a particularly tough climate for SMEs, with a reduction in demand for goods and services and a contraction in lending by banks and other financial institutions. They make a huge contribution to gross domestic product (GDP) and employment. The global financial crisis of 2008, however, created new challenges for SMEs. The small and medium enterprises, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari et al., 2016).

Japan has the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises. India, according to its Ministry of small and medium enterprises, had 13 million SMEs in 2008, equivalent to 80% of all country's businesses. In South Africa, it is estimated that 91% of the formal business entities are SMEs. The contribution made by SMEs does vary widely between countries and regions. Nevertheless, although they play key roles in high-income countries, SMEs are also important to low-income countries, making significant contributions to both GDP and employment. They are also major contributors to innovations in economies, partly through collaboration with the larger corporate sector (Ayyagari et al, 2016).

2.3.2 Financial Performance

SMEs performance may be measured using objective, subjective, or operational measures. Richard, Devinney, Yip and Johnson (2009) suggest the goal approach as a composite measure of SME performance. The goal approach measures performance using financial (objective) and non-financial measures (subjective) measures. Financial measures of performance can be referred to as the results of a firm's operations in monetary terms. Financial measures of performance are derived from the accounts of a firm or can be found in the firm's profit and loss statement or the balance sheet. Financial measures are also referred to as objective measures because they can be individually measured and verified (Kellen, 2003).

Profitability Growth is the growth in the profits of a firm. Profitability growth can also refer to the continuous increase in the financial profit after all expenses have been paid over a given period on time. An increase in the profitability of a firm is an objective measure of performance as it shows that the firm is continuously improving. Sales

growth refers to an increase in sales over a specific period of time, usually but not always annually. Delmar, Davidson and Gartner (2003) suggest that if there is one measure of SME performance that could be used then it has to be sales growth.

In addition Watson (2007) suggests that because most SMEs are not required to report and publish their financial records, it is difficult to obtain, directly, the financial figures on sales and profitability of most SMEs. Therefore, most research studies such as Lechner, Dowling and Welpe (2006) and Watson (2007) have developed the use of a five point Likert scale which measures sales growth and profitability growth as financial performance measures. A similar technique is used by Sawyerr et al. (2003), Thrikawala (2011) and Watson (2011). This approach is implemented as it avoids the direct approach of asking for sales or profitability figures but infers the performance, indirectly, through the responses on the level of satisfaction with sales and profitability growth of the firm. However, it is important to note that sales and profitability growth should not be viewed in isolation as profits and sales may increase as a result of some underlying factor such as price increases or sales promotions, respectively, and not due to the improved performance of the firm or its products.

2.4 Empirical Review of Literature

2.4.1 Microfinance Loans and Financial Performance

Lack of access to finance has been identified as one major constraint to growth of SMEs (Anyawu, 2003). According to Lawson (2007) the extent to which SMEs can access fund is the extent to which the SMEs can save and accumulate own capital for further investment. The insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of micro and small business failure. Access to

credit enables the SMEs owner to cover some or all of the cost of capital equipment, expansion, or renovation of buildings. According to a study by UNDP (2016) the SMEs in Kenya were able to acquire fixed assets and technologies using Micro credit. Makokha, (2016) revealed that inadequacy of capital hindered the performance of businesses. The study further found that larger loans enabled SMEs to graduate to medium enterprises.

Muthengi (2012) conducted a study on the impact of microcredit on the growth small and microenterprises in Kitui District. His findings were that 80% of the sampled population used credit before. The result also showed that microcredit had impacted positively on the growth of SMEs in the District. The study recommended that the government should improve the existing facilities and establish those which are lacking in order to better the working atmosphere and hence performance of SMEs operating in the district. Pius (2010) investigated on the influence of microcredit finance on the growth of small scale women entrepreneurs in Kenya. She used survey research designs to conduct the study. The target population as the small scale women entrepreneurs in Mosocho division, Kisii central district. The sample study constituted 36 respondents out of 120 entrepreneurs spread over three markets. Simple random sampling technique was used to determine the study sample. The research findings revealed that the small scale entrepreneurs faced problems in operating their businesses

In contrast, other studies have found a negative relationship between the impact of microfinance loan services and the growth of SMEs. For instance, Babajide (2012) assessed the impact of microfinance services on the growth of SMEs in Nigeria. The study used loan size, loan tenor, microloan, micro-saving and interest rate as the

microfinance services (independent variables). The study found a dynamic indication that, access to microfinance facilities such as frequency of loan repayment, loan duration, loan size does not improve growth of SMEs in Nigeria (negative impact). Also, Ene and Inemesit (2015) examine the impact of microfinance in promoting financial inclusion in Nigeria. The study measures loans and advances, deposits (savings) and interest rate on loan. The study found insignificant and negative relationship between the interest rate charged on loan of microfinance to SMEs.

2.4.2 Microfinance Savings and Financial Performance

Empirically, studies conducted have found that savings offered by microfinance increases the growth of SMEs. For instance, Anane, Cobbinah and Manu (2013) examines the effects and the responsibilities of microfinance on the growth of SMEs in rural Ghana. The study utilizes savings and loan as the microfinance facilities and revealed that, there is a positive relationship between the savings offered by microfinance and the growth of SMEs in Ghana. Similarly, Emmanuel and Nneji (2015) found a significant impact of savings facility of microfinance on SMEs growth and performance in Nigeria. In this regards other similar studies that found positive impact of microfinance savings on the growth of SMEs (Ojelabi et al., 2015; Bello, 2012).

On the other hand, Duru and Ogbe (2013) assessed the connection between microfinance and financing of SMEs in Nigeria and found that, SMEs did not basically succeed in deriving the positive impact of microfinance facilities, including savings facility. Ihugba et al. (2013) examine the impact of microfinance on poverty reduction in Imo State Nigeria. The study found a negative and insignificant impact between small enterprises growth and savings offered by microfinance. Other prior studies that revealed negative

impact of microfinance savings on the growth of SMEs (Tumwine et al., 2015; Imoisi and opara, 2014; Olu, 2009).

2.4.3 Microfinance Insurance and Financial Performance

The success of the SMEs sector can be aided if a relationship between SMEs and other service providers such as insurance providers is established. In the event that an SME faces a catastrophe like a fire, strike or that its employees are injured at work, they need to have insurance to cover such eventualities as such disasters may leave them vulnerable if they do not have insurance. Micro insurance is one of the ways that he identified to encourage a positive attitude towards risk aversion. Insurance provides a hedge against risk, yet insurance that might specifically assist SMEs is rear. The only way that insurance that is specifically target at SMEs, short term insurance providers should approach SMEs and establish their needs. This can be done through establishing a business relationship. Business relationships are valuable long-term assets of a company. It is necessary to invest in such relationships and to manage this investment to ensure their repeat business (Claro, 2004).

Studies carried out in the United Kingdom illustrate that it is possible for a business relationship to be forged between SMEs and insurance companies. Most SMEs have a tendency not to insure their businesses which becomes a problem. They need to ensure that their businesses are kept running in the event that their key personnel who are usually the owners are unavailable due to one reason or another (Thorpe, 2004). A small number of insurers in the United Kingdom are starting to discount premiums and/ or recommending that their clients prepare a Business Continuity Plan (Walsh, 2003). In his paper on the role of loss adjusters and claims preparers, Thorpe (2004) does make the

point that many large corporations pre-agree with a loss adjuster before the event. This arrangement is not available to SMEs. This is because short term insurance companies do not view small businesses as profitable clients. It could also be due to the fact that, the amount of business interaction with small business is at a minimal level.

A business relationship between SMEs and insurance companies is possible even within an African context. In Nigeria, the collapse of several promising SMEs and other businesses in the business landscape in the last four decades has been attributed to lack of awareness by the business owners mainly on the need to strengthen their risk-taking ability and long-term sustenance of their enterprises through adequate and appropriate insurance coverage for their investment. In an article called, "Nigeria: Cornerstone Seeks Growth of SMEs Through Insurance Support", Saghana mentions that SMEs in Nigeria can benefit a lot from the different types of insurance products that are being offered by insurance companies such as Group Life insurance, Keyman Assurance, Critical Illness Benefits Income (Mwangi, 2011). Maalu, et. al. (1999) discussed the role of Micro and Small Enterprises in the economy of Kenya and noted the important role it has played and continues to play. In addition to the employment creation and income generation, the study noted other important roles in the economy such as production of goods and services and development skills.

2.4.4 Size of Business and Financial Performance of SMEs

Both in the developing and developed world, small firms have been found to have less access to external finance and to be more constrained in their operation and growth (Galindo & Schiantarelli, 2003). Schiffer and Weder (2001) show that small firms consistently report higher growth obstacles than medium-size or large firms. It is shown

that size, age and ownership are the most reliable predictors of firms‟ financing obstacles. The authors find that older, larger and foreign-owned firms report lower financing obstacles. The relationship is not only statistically but also economically significant.

The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-size firms and 32% for large firms. The higher financing obstacles that small firms report match not only anecdotal evidence from both developed and developing countries, they also confirm theory's predictions. In a world with fixed transaction costs and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer. Do the higher financing obstacles that small firms report actually constrain their growth or do they find ways around these obstacles? Beck et al. (2005) find that the higher obstacles faced by smaller firms indeed translate into slower growth. Small firms thus do not only report facing higher growth obstacles, these higher obstacles are also more constraining for their operation and growth than in the case of medium-size and large firms.

Junjie et al. (2008) indicated that most of the problems related to financing arise predominantly in SMEs. This statement is proved by other researchers whom reported that there is a direct relationship between firm size and financing accessibility (Berry et al., 2003; Beck, Asli & Maksimovic, 2005; Beck & Demirguc-Kunt, 2006). This behavior is criticized by Binks et al. (2006) as the finance gap leads to competitiveness disadvantage and failure in exploiting business opportunity. In contrast, Berry et al.

(2003) interpreted from banks‟ position that increases in firm size allows greater diversification of risks, which provide higher safeguards toward banks.

2.5 Literature Review Matrix

Table 2. 1: Literature Review Matrix

Author	Study	Findings	Gap
Muthengi (2012)	Impact of microcredit on the growth small and microenterprises in Kitui District.	Findings-microcredit had impacted positively on the growth of SMEs in the District.	Study focused on microcredit finance and financial performance Area of study- Nyamira Town
Pius (2010)	Influence of microcredit finance on the growth of small scale women entrepreneurs in Kenya.	Positive and significant	Current study focused on microcredit finance and financial performance Area of study- Nyamira Town
Babajide (2012)	Impact of microfinance services on the growth of SMEs in Nigeria.	Findings access to microfinance facilities such as frequency of loan repayment, loan duration, loan size does not improve growth of SMEs in Nigeria (negative impact).	Current study focused on microcredit finance and financial performance Area of study- Nyamira Town
Ene and Inemesit (2015)-	Impact of microfinance in promoting financial inclusion in Nigeria.	Insignificant and negative relationship between the interest rate charged on loan of microfinance to SMEs.	Current study focused on microcredit finance and financial performance
Anane, Cobbinah and Manu, (2013)	Effects and the responsibilities of microfinance on the growth of SMEs in rural Ghana.	Positive relationship between the savings offered by microfinance and the growth of SMEs in Ghana.	Area of study- Nyamira Town

Emmanuel and Nneji (2015)-	Impact of savings facility of microfinance on SMEs growth and performance in Nigeria.	Significant and positive	Current study focused on microcredit finance and financial performance
Duru and Ogbe (2013)	connection between microfinance and financing of SMEs in Nigeria	SMEs did not basically succeed in deriving the positive impact of microfinance facilities, including savings facility.	Area of study- Nyamira Town
Ihugba *et al*. (2013)-	Impact of microfinance on poverty reduction in Imo State Nigeria.	Negative and insignificant impact between small enterprises growth and savings offered by microfinance.	Current study focused on microcredit finance and financial performance
Thorpe (2004)	Study of business relationship between SMEs and insurance companies in UK	Most SMEs have a tendency not to insure their businesses which becomes a problem.	Area of study- Nyamira Town
Mwangi (2011)	Nigeria: Cornerstone Seeks Growth of SMEs Through Insurance Support"	SMEs in Nigeria can benefit a lot from the different types of insurance products that are being offered by insurance companies such as Group Life insurance, Keyman Assurance, Critical Illness Benefits Income.	Current study focused on microcredit finance and financial performance

Source: Empirical reviewed Literature indicated by the Authors (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the following: Research design, study area, population of the study, sample size and sampling technique, data collection procedures, instruments of data collection, validity, reliability, data analysis and presentation and ethical considerations.

3.2 Research Design

Research design is an overall plan for the methods to be used to collect and analyze the data of a research study (Hair *et al*., 2006). Cooper and Schindler (2006) state that research design explains the logic behind the research method, the research techniques as well as the research instruments or the research format. It is a detailed blueprint used to guide a research study towards its objectives. Correlation research design was used in this study to establish whether there is an effectof microcredit finance on financial performance of SMEs, this is because it minimizes biasness in the collection of data.

3.3 Study Area

This study was conducted in Nyamira Town which is the headquarter of Nyamira County. The researcher selected SME in Nyamira Town because most of the SMEs are concentrated in the town as a result of high number of customers, good communication, transport, security and infrastructure network.

3.4 Study Population

According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. This

definition ensures that the population of interest is homogeneous. The population of the study comprised of the registered 550 SMEs that are based in Nyamira Town. The SMEs was drawn from the manufacturing, trade and service sectors.

3.5 Sample Size and Sampling Techniques

A sample size is the total number of the respondents picked for the study from the target population (Bryman and Bell, 2011). Since the target population, **N**, is known, the study used Yamane (1967) formula to determine the sample size, **n** from the study population **N** and **e** is the probability of error. The target population of 550 thus generated a sample size of approximately 232.

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

Hence given the population as 550, the sample size was calculated as follows'

$$n = \frac{550}{1+550(0.05)^2} = \mathbf{231.5 \sim 232}$$

Table 3. 1: Sample Size Distribution

Population Unit	**Target Population**	**Sample Size**
Manufacturing SMEs	164	69
Trading SMEs	261	110
Service SMEs	125	53
Total	**550**	**232**

Source: Nyamira County Department of Trade and Industrialization (2019)

A sampling technique is the specific process used to select study participants or respondents (Saunders, Lewis & Thornhill, 2012). Stratified random sampling technique was used to select respondent population proportionally into three strata that is SMEs

from trade, manufacturing and service sectors, and to pick the individual respondents who participated in the study. Since the sample size from each population is known, simple random sampling was used to choose the sample from the strata.

3.6 Data Collection Instruments

A questionnaire is a data collection tool in which each person is asked to respond to the same set of questions in a predetermined order. It is generally considered to be a superior form of data collection as the researcher formed a system of data collection very specific to the research being undertaken (Murphy, Hill & Dean, 2013). The researcher used questionnaire to collect data from owners of the SMEs in Nyamira Town. The questionnaire was divided into two sections with the first comprising of demographic information and section two containing Likert scale measurement of independent variables namely microfinance loans, savings and insurance services. It also contained information on SMEs financial performance and size. Both close-ended and open-ended questions were used. Closed ended questions were presented on a 5-Point Likert scale where by 1=Strongly Disagree, 2=Disagree, 3=Fairly Agree, 4=Agree, 5=Strongly Agree.

3.7 Piloting

A pilot study was carried out to test the validity and reliability of the data collection instruments in order to ensure that the items in the questionnaire. The researcher administered 23 questionnaires to SMEs owners in Kakamega Town which was 10% of the sample size are recommended by Lucas and Donnellan(2012).

3.8 Reliability and Validity of Instruments

3.8.1 Validity

Validity indicates the degree to which an instrument measures what it is supposed to measure. The study determined three main types of validity of the instruments, that is, face, content and construct validity. The researcher determined face validity of the instruments by ensuring that questionnaires are prepared in line with the conceptual framework in Figure 1.1 so as to capture all the study variables. The research consulted supervisors and lecturers from the School of Business and Economics of Masinde Muliro University of Science and Technology for expert advice on the content validity of the study instruments. Their views and advice were used to improve the relevance, clarity, and wording of the items or questions in the study instrument. Finally, the researcher established construct validity of the instruments by review of theoretical and empirical literature.

3.8.2 Reliability

Reliability is a measure that indicates the extent to which there is no biasness, therefore it ensures consistent measurement across the various items in the instrument.

A reliable measurement is one that if repeated a second time gives the same results as it did the first time (Mugenda & Mugenda, 2003). Cronbach Alpha method was used to check on the reliability of the instruments by determining the internal consistency of the scale used. From the pilot study data in Table 3.2, the researcher obtained that there was internal consistency of the research questionnaire used for data collection because the entire study variable had Cronbach Alpha values of above 0.7 and an overall value of 0.854.

Table 3. 2: Reliability Statistics of Research Variables

	Cronbach's Alpha if Item Deleted
MicrofinanceLoans	.850
MicrofinanceSavings	.852
MicrofinanceInsurance	.826
BusinessSize	.790
FinancialPerformance	.795
Overall	**.854**

Source: Pilot Data (2019)

3.9 Data Analysis and Presentation Techniques

The data collected was refined, coded and entered into the Statistical Package for Social Sciences. Data was analyzed using inferential statistics; regression analysis, and correlation, where relationship between the independent variable and the dependent variable will be determined. Correlation analysis was used to determine the strength of relationship among the variables. Various tests were conducted on regression models to determine the presence of auto-correlation where Durbin Watson was used to test whether variables are highly correlated or not. SPSS aided the analysis of data. Data was presented using frequency distribution tables and figures.

The study used simple regression models in order to test the research hypothesis one to three as shown below:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \ldots\ldots \textit{Model (i)}$$

$$Y = \beta 0 + \beta 2X2 + \varepsilon \ldots\ldots \textit{Model (ii)}$$

$$Y = \beta 0 + \beta 3X3 + \varepsilon \ldots\ldots \textit{Model (iii)}$$

Where:
Y = Dependent variable (financial performance), X = Independent variable (microcredit finance). β_0 = Constant term, X_1= Microfinance Loans, X_2 = Microfinance Savings , X_3 = Microfinance Insurance, and e = Error term (standard error)

The study evaluated the moderating effect of business size on the relationship between study variables using stepwise regression analysis which was proposed by Baron and Kenny (1986). According to Baron and Kenny (1986), there are three steps involved in testing the moderating effect. Step one involves testing the influence of micro finance credit on financial performance. Step two entails testing the effect of micro finance credit and business size (predictor variables) on financial performance (criterion variable). Finally, in step three, product of standardized values for micro finance credit and business size (interaction term) was introduced and tested for its significance on financial performance. Moderating effect happens if the effect of interaction is significant in the third step.

The three steps involved in stepwise regression analysis were written as:

Step One: $Y=\beta_0+\beta_1X_1+e$

Step Two: $Y=\beta_0+\beta_1X_1+ \beta_2M+e$

Step Three: $Y=\beta_0+\beta_1X_1+ \beta_2M+\beta_3X_1*M+e$

Where, β_0 represents Constant Term, β_i; i = 1-3 is the regression coefficients which measures the change induced on the study variables; X_1=Micro finance credit; M = Business size; X_1*M=Interaction Term between micro finance credit and business size; Y= Financial Performance and; e=Error Term.

3.10 Ethical Considerations

The researcher obtained permission to conduct research from Masinde Muliro University of Science and Technology through the Directorate of Graduate Studies. Further permission was also sought from National Commission of Science, Technology and Innovation (NACOSTI). Respondent's confidentiality and informed consent was guaranteed by the researcher assuring respondents that the information gathered was used for research purposes only and also ensure anonymity of respondents by ensuring that they did not indicate their identity in the questionnaires.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results and the discussion of the results obtained from the study. It contains analysis based on the background information of the respondents, descriptive statistics and inferential statistics on the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya.

4.2 Background Information

Use of background information by the study is justified because it helped the researcher have basic information of the respondents like response rate, gender, age, SMEs duration and level of education. The basic information affects respondents' level of responses to the researcher questions. It also promotes confidence in the overall quality of analyzed research findings.

4.2.1 Response Rate

This section is of great importance because it forms the basis under which the study results were interpreted based on a total of 187 respondents.

Table 4. 1: Respondents Response Rate

Response		
	f	%
Successful	187	80.6%
Unsuccessful	45	19.4%
Total	**232**	**100%**

Source: Field Data (2019)

The researcher administered 232 questionnaires out of which 187 questionnaires were completely filled and collected back as shown in Table 4.1. The results generated 80.6% response rate which is very good for subsequent data analysis and interpretation as asserted by Bebbie (2004) that a response rate of 70% and above is very good.

4.1.2 Respondents Gender

The respondents were asked to indicate their gender so that participation according to gender is analyzed and discussed. The gender of the respondents was established as indicated in Table 4.2.

Table 4. 2: Respondents Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	115	61.5	61.5	61.5
	Female	72	38.5	38.5	100.0
	Total	187	100.0	100.0	

Source: Field Data (2019)

Results in Table 4.2 show that majority of SMEs in Nyamira Town employees are male 115(61.5%) as compared to female 72(38.5%). This can be interpreted as employment in SMEs in Nyamira Town is skewed towards men as compared to women.

Table 4. 3: Respondents Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-20 years	6	3.2	3.2	3.2
	21-30 years	66	35.3	35.3	38.5
	31-40 years	59	31.6	31.6	70.1
	Above 41 years	56	29.9	29.9	100.0
	Total	187	100.0	100.0	

Source: Field Data (2019)

From Table 4.3, it can be depicted that most employees in SMEs in Nyamira Town are aged between 21-30 years, 66(35.3%), followed by 31-40 years, 59(31.6%) and above 41 years 59(31.6%). Only 6(3.2%) of the employees were aged between 15-20 years. The results imply that most employees in the SMEs are advanced in age hence were aware of the research variables under investigation.

Table 4. 4: SMEs Duration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10 years and below	126	67.4	67.4	67.4
	11-20 years	50	26.7	26.7	94.1
	21-30 years	9	4.8	4.8	98.9
	More than 30 years	2	1.1	1.1	100.0
	Total	187	100.0	100.0	

Source: Field Data (2019)

Table 4.4 study findings indicate that most of the SMEs in Nyamira Town have been in existence for 10 years and below while 50(26.7%) have been in existence for 11-20 years. The study results can be interpreted that most SMEs in Nyamira Town have been in existence for a period of less than 20 years which may be attributed to the establishment of county government resulting to an increase market base.

Table 4. 5: Respondents Level ofEducation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary Education	14	7.5	7.5	7.5
	Secondary Education	66	35.3	35.3	42.8
	Diploma	87	46.5	46.5	89.3
	Bachelor Degree	17	9.1	9.1	98.4
	None	3	1.6	1.6	100.0

Total	187	100.0	100.0

Source: Field Data (2019)

Table 4.5depicts that most employees in the sampled SMEs in Nyamira Townhaddiploma qualification 87(46.5%) followed by secondary education, 66(35.3%) each. Few employees had bachelor degree, primary education and no qualifications representing 17(9.1%), 14(7.5%) and 3(1.6%) respectively. These results can be interpreted that most employees in SMEs in Nyamira Town have at least diploma and secondary education qualification hence were aware of the research issues under investigations and could also comprehend the research questions.

4.2 Descriptive Statistical Analysis

The study sought to establish the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya. The respondent responses were rated on a five-point Likert scale showing to what extent the respondents agree or disagree with the researcher statements on micro credit finance, business size and financial performance where: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree. The researcher used mean to interpret data as suggested by Bryman and Bell (2011), where mean <1.5=Strongly Disagree, >1.5-2.5=Disagree, 2.5-3.5=Fairly Agreed, 3.5-4.5=Agree and >4.5 Strongly Agree. The researcher computed normality of the responses so as to test the normality of the study constructs using kurtosis and skewness.According to, George & Mallery (2010), if variable kurtosis and skewness values lies between -3.0 and +3.0, it is regarded to be close to normal.

4.2.1 Microfinance Loans

As part of the study objectives, the study sought to determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, Kenya.Table 4.6 illustrates the results.

Table 4. 6:Microfinance Loans

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Bank loans easily accessible	187	3.0588	-.346	.178	.238	.354
Loan repayment terms very friendly	187	3.3797	-.979	.178	.166	.354
Microfinance provides the requested loan amount	187	3.4011	-1.195	.178	.698	.354
Total credit finance accessed through semi informal sector	187	3.0214	-.279	.178	.930	.354
Most financial institutions reluctant to provide SMES with long term credit facilities	187	3.2086	.046	.178	.138	.354
Application fees affects the cost of acquiring loans	187	3.0695	.034	.178	.392	.354
Valid N (listwise)	187					

Source: Field Data (2019)

The study results in Table 4.6 indicate that microfinance loan constructs skewness coefficient ranges from -1.195 to 0.046 and kurtosis coefficient ranges being 0.138 to 0.930. Based on these study findings, it can be concluded that microfinance loan constructs are normally distributed since they lies within the ±3 range recommended by George and Mallery (2010). The data is thus fit for descriptive statistical analysis and subsequent inferential analysis.

Table 4.6results depicts that most respondents fairly agreed (mean=3) that:Bank loans easily accessible; Loan repayment terms very friendly; Microfinance provides the requested loan amount; Total credit finance accessed through semi informal sector; Most financial institutions reluctant to provide SMES with long term credit facilities; and Application fees affects the cost of acquiring loans. In general, it can be deduced that microfinance loan availability and accessibility of SMEs in Nyamira Town is fairly adequate.

4.2.2Microfinance Savings

As part of the study objectives, the study sought to establish the extent to which ease of microfinance savings influences financial performance of SMEs in Nyamira Town, Kenya.Table 4.7 illustrates the results.

Table 4. 7: Microfinance Savings

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
My savings enables me to get loans for business expansion	187	3.4759	-.147	.178	.160	.354
It is simple and easy to open a savings account	187	3.4171	.005	.178	.206	.354
MFIs allow us to open a savings account with minimum or no cost	187	3.3904	.081	.178	-.131	.354
My savings earns interest which helps me expand my business	187	2.5561	.738	.178	-.520	.354
MFIs has no minimum and maximum saving	187	3.3957	-.004	.178	.060	.354
Valid N (listwise)	187					

Source: Field Data (2019)

Study findings in Table 4.7 show that microfinance saving constructs skewness coefficient ranges from -0.004 to 0.738and kurtosis coefficient ranges being -0.520 to 0.206. Based on these study findings, it can be concluded that microfinance saving constructs are normally distributed since they lies within the ±3 range recommended by George and Mallery (2010). The data is thus deemed fit for descriptive statistical analysis and subsequent inferential analysis.

From the study results in Table 4.7, it is observed that most respondents fairly agreed (mean=3) that:Their savings enables them to get loans for business expansion; It is simple and easy to open a savings account; MFIs allow them to open a savings account with minimum or no cost; Their savings earns interest which helps me expand my business; andMFIs has no minimum and maximum saving.In general, it can be concluded that microfinance savings of SMEs in Nyamira Town is fairly adequate.

4.2.3Microfinance Insurance

As part of the study objectives, the study sought to assess the effect of microfinance insurance on financial performance of SMEs in Nyamira Town, Kenya.Table 4.8 illustrates the results.

Table 4. 8: Microfinance Insurance

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Insurance services for smes are accessible	187	3.2995	-.933	.178	-.522	.354
Microfinance offers favourable collateral insurance	187	2.9144	-.348	.178	.895	.354
Microfinance offers favourable insurance covers to smes	187	3.0374	-.197	.178	.148	.354
The SMEs savings acts as insurance for our business	187	2.6524	.758	.178	-.801	.354
Insurance cover enables business continuity in the event of any risk	187	2.6631	.699	.178	-.851	.354
Valid N (listwise)	187					

Source: Field Data (2019)

Study results in Table 4.8 opine that microfinance insurance constructs skewness coefficient have a range from -0.933to 0.758and kurtosis coefficient ranges from-0.851to 0.895. Based on these study findings, it can be concluded that microfinance insurance constructs are normally distributed since they lies within the ±3 range recommended by George and Mallery (2010). The data is thus deemed fit for descriptive statistical analysis and subsequent inferential analysis.

Study results in Table 4.8 indicate that most respondents fairly agreed (mean=3) that:Insurance services for smes are accessible; Microfinance offers favourable collateral insurance; Microfinance offers favourable insurance covers to smes; The SMEs savings acts as insurance for our business; Insurance cover enables business continuity in the event of any risk. In general, it can be concluded that microfinance insurance in SMEs in Nyamira Town is fairly adequate.

4.2.4Micro Credit Finance and Business Size

As part of the study objectives, the study sought to establish the moderating effect of size of business on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.Table 4.9 illustrates the results.

Table 4. 9:Micro Credit Finance and Business Size

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Microfinance loans enables SMEs acquire more asset	187	3.1979	-.294	.178	.435	.354
SMEs assets are attached as collateral	187	3.1176	-.657	.178	1.003	.354
Adequate fixed assets for SMEs operation allows them to save for current asset	187	3.0428	-.086	.178	.563	.354
Accessibility to loans enable SMEs to open more branches	187	3.1818	.084	.178	.821	.354
SMEs branches expansion is due to increase in loans advanced to SMEs	187	3.5455	-1.065	.178	.834	.354
Insurance covers has reduced risks associated with SMEs business expansion	187	3.0802	-.004	.178	.939	.354
Valid N (listwise)	187					

Source: Field Data (2019)

Study findings in Table 4.9 depict that micro credict finance and bank size constructs skewness coefficient ranges from -1.065to 0.084and kurtosis coefficient ranges being 0.435 to 1.003. Based on these study findings, it can be concluded that micro credit

finance and bank size constructs are normally distributed since they lies within the ±3 range recommended by George and Mallery (2010). The data is thus deemed fit for descriptive statistical analysis and subsequent inferential analysis.

From the study results in Table 4.9, it is observed that most respondents moderately agreed (mean=3) that:Microfinance loans enables SMEs acquire more asset; SMEs assets are attached as collateral; Adequate fixed assets for SMEs operation allows them to save for current asset; Accessibility to loans enable SMEs to open more branches; SMEs branches expansion is due to increase in loans advanced to SMEs; and Insurance covers has reduced risks associated with SMEs business expansion. In general, it can be concluded that bank size has a moderate influence on micro credit finance of SMEs in Nyamira Town.

4.5 Inferential Statistical Analysis

The study sought to establish the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya. Data was analyzed in relation to each research objective by generating correlation and regression coefficients from SPSS version 20 software. Correlation analysis was used to determine the relationship that exists between micro credit finance on financial performance whiletesting of research hypothesis was conducted using regression analysis.

4.5.1 Correlation Analysis

This section presents the results on the relationship between micro credit finance on financial performance as per the research objective using Pearson product moment correlation. Table 4.11 indicates the correlation between micro credit finance and financial performance.

Table 4. 10: Micro Credit Finance and Financial PerformanceCorrelation Results

		Financial Performance
MicrofinanceLoans	Pearson Correlation	**.604****
	Sig. (2-tailed)	.000
	N	187
MicrofinanceSavings	Pearson Correlation	**.570****
	Sig. (2-tailed)	.000
	N	187
MicrofinanceInsurance	Pearson Correlation	**.595****
	Sig. (2-tailed)	.000
	N	187

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

Source: Field Data (2019)

The findings in Table 4.11 depict that there wasa strong positive and significant relationship between microfinance loan and financial performanceat 99% confidence level (r=0.604, α=0.000 and p-value=0.05 thus α<p-value). Microfinance insurance also had a positive and significant relationship on financial performance (r=0.595, α=0.000 and p-value=0.05 thus α<p-value) followed by positive and significant relationship between microfinance savings and financial performance (r=0.570, α=0.000 and p-value=0.05 thus α<p-value). In general, the study results imply that microfinance loans has a higher positive and significant relationship on financial performance followed by microfinance insurance and microfinance saving.

Table 4. 11: Micro Credit Finance, Business Size and Financial Performance Correlation Results

		Financial Performance
FinancialPerformance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	187
MLBS	Pearson Correlation	**.736****
	Sig. (2-tailed)	.000
	N	187
MSBS	Pearson Correlation	**.715****
	Sig. (2-tailed)	.000
	N	187
MIBS	Pearson Correlation	**.699****
	Sig. (2-tailed)	.000
	N	187

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

Source: Field Data (2019)

From the study findings in Table 4.12, it is observed that when the moderator, business size is added into the relationship, the correlation between the research variables increases. Microfinance loans had the highest relationship on financial performance followed by microfinance insurance and microfinance savings as a result of introduction of business size (r=0.736,r=0.715, r=0.699, α=0.000 and p-value=0.05 thus α<p-value). The study findings can be interpreted that business size plays a greater moderating effect on the relationship between micro credit finance and financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya.

4.5.2 Regression Analysis

This section presents the test of hypotheses on the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya.The study used regression model composing of model summary, ANOVA and regression coefficients. The study used t-statistic value and p-value level of significance for testing hypothesis. If the t-statistics is significant (t-statistics value less than the p-value) the researcher rejects the null hypothesis otherwise the study will have failed to reject the null hypothesis (Elam, 1979).

4.5.2.1 Effect of Microfinance Loans on Financial Performance

The study sought to test the first research hypothesis that was stated as: **H_{O1}:**Microfinance loans has no significant effect on financial performance of SMEs in Nyamira Town, Kenya. Table 4.13 illustrates the study findings.

Table 4. 12:Effect of Microfinance Loans on Organization Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	**.604**[a]	**.365**	.362	.55644

a. Predictors: (Constant), MicrofinanceLoans

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.929	1	32.929	**106.349**	**.000**[b]
	Residual	57.281	185	.310		
	Total	90.209	186			

a. Dependent Variable: FinancialPerformance
b. Predictors: (Constant), MicrofinanceLoans

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	**1.064**	.212		5.013	.000
	MicrofinanceLoans	**.674**	.065	.604	**10.313**	**.000**

a. Dependent Variable: FinancialPerformance

Source: Field Data (2019)

Table 4.13model summary results shows that there is a positive and significant effect of microfinance loans on financial performance (R=0.604). The results also illustrate that microfinance loansaccounts for 36.5% of the variability in financial performance of SMEs in Nyamira Town, Kenya(R^2=0.365). The ANOVA results show that F=106.349and p=0.000. The overall results revealed that regression model was significant in determining the model applicability to measure the study variables. This means that there is a satisfactorily goodnessof fit between microfinance loansand financial performance of SMEs in Nyamira Town, Kenya. The use of regression model to reject the research hypothesis was thus justified.

Based on the study beta coefficient results, simple linear regression model equation can be written as; $Y=1.064+0.674X_1+e$, where **Y=**Financial Performance, $\mathbf{X_1}$ represents Microfinance Loans and **e** represents error term. A beta results imply that for every 0.674 units of use of microfinance loans, there is a corresponding 1 unit increase in financial performance. Since the t-statistic was significant ($\alpha=0.000$ and p-value=0.05 thus $\alpha<$p-value), the study rejected the first null hypothesis and concluded that microfinance loans had a significant and a positive effect on financial performance of SMEs in Nyamira Town, Kenya. The study findings are consistent with that of Makokha (2016) that found out that inadequate capital hinders the performance of organization.

4.5.2.2Effect of Microfinance Savings on Financial Performance

The study sought to test the second research hypothesis that was stated as: $\mathbf{H_{O2}}$**:**Microfinance saving has no significant effect on financial performance of SMEs in Nyamira Town, Kenya. Table 4.14 indicates the study findings.

Table 4. 13:Effect of Microfinance Savings on Organization Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.570[a]	.325	.322	.57358

a. Predictors: (Constant), MicrofinanceSavings

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.346	1	29.346	89.200	.000[b]
	Residual	60.863	185	.329		
	Total	90.209	186			

a. Dependent Variable: FinancialPerformance
b. Predictors: (Constant), MicrofinanceSavings

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.619	.174		9.313	.000
	MicrofinanceSavings	.491	.052	.570	9.445	.000

a. Dependent Variable: FinancialPerformance

Source: Field Data (2019)

Table 4.14model summary results indicates that there is a positive and significant effect of microfinance savings on financial performance (R=0.570). The results also show that microfinance savingsaccounts for 32.5% of the variability in financial performance of SMEs in Nyamira Town, Kenya (R^2=0.325). The ANOVA results show that F=89.200and p=0.000. The overall results revealed that regression model was significant in determining the model applicability to measure the study variables.

This means that there is a satisfactorily goodness for fit between microfinance savings and financial performance of SMEs in Nyamira Town, Kenya. The use of regression model to reject the research hypothesis was thus justified.

Based on the study beta coefficient results, simple linear regression model equation can be written as; $Y=1.619+0.491X_2+e$, where **Y=**Financial Performance, $\mathbf{X_1}$ represents Microfinance Savings and **e** represents error term. A beta results imply that for every 0.491 units of use of microfinance savings, there is a corresponding 1 unit increase in financial performance. Since the t-statistic was significant (α=0.000 and p-value=0.05 thus α<p-value), the study rejected the second null hypothesis and concluded that microfinance savings had a significant and a positive effect on financial performance of SMEs in Nyamira Town, Kenya. The study findings mirror those of Ojelabi et al. (2015), Bello (2012) and Anane, Cobbinah and Manu (2013) that found out that microfinance savings results to growth and financial performance of SMEs.

4.5.2.3Effect of Microfinance Insurance on Financial Performance

The study sought to test the third research hypothesis that was stated as: $\mathbf{H_{O3}}$**:**Microfinance insurance has no significant effect on financial performance of SMEs in Nyamira Town, Kenya. Table 4.15 shows the study findings.

Table 4. 14:Effect of Microfinance Insurance on Organization Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.595[a]	.354	.350	.56146

a. Predictors: (Constant), MicrofinanceInsurance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.890	1	31.890	101.163	.000[b]
	Residual	58.319	185	.315		
	Total	90.209	186			

a. Dependent Variable: FinancialPerformance
b. Predictors: (Constant), MicrofinanceInsurance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.796	.147		12.245	.000
	MicrofinanceInsurance	.486	.048	.595	10.058	.000

a. Dependent Variable: FinancialPerformance

Source: Field Data (2019)

From Table 4.15model summary results, it is observed that there is a positive and significant effect of microfinance insurance on financial performance (R=0.595). The results also illustrate that microfinance insuranceaccounts for 35.4% of the variability in financial performance of SMEs in Nyamira Town, Kenya (R^2=0.354). The ANOVA results show that F=101.163and p=0.000. The overall results revealed that regression model was significant in determining the model applicability to measure the study variables. This means that there is a satisfactorily goodness for fit between microfinance insurance and financial performance of SMEs in Nyamira Town, Kenya. The use of regression model to reject the research hypothesis was thus justified.

Based on the study beta coefficient results, simple linear regression model equation can be written as; $Y=1.796+0.486X_3+e$, where **Y=**Financial Performance, $\mathbf{X_1}$ represents Microfinance Insurance and **e** represents error term. A beta results imply that for every 0.486 units of use of microfinance insurance, there is a corresponding 1 unit increase in financial performance. Since the t-statistic was significant ($\alpha=0.000$ and p-value=0.05 thus $\alpha<$p-value), the study rejected the third null hypothesis and concluded that microfinance insurance had a significant and a positive effect on financial performance of SMEs in Nyamira Town, Kenya. The study findings are in agreement with studies conducted by Mwangi (2011) and Saghana (2009) that found out that microfinance insurance plays a very important role in financial health of the business.

4.5.2.4Moderating Effect of Business Size on the Relationship between Micro Credit Finance and Financial Performance

The study sought to test the fourth research hypothesis that was stated as: $\mathbf{H_{O4}}$**:**Business size has no significant effect on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.

The study evaluated the moderating effect of business size on the relationship between study variables using stepwise regression analysis which was proposed by Baron and Kenny (1986). According to Baron and Kenny (1986), there are three steps involved in testing the moderating effect. Step one involves testing the influence of micro finance credit on financial performance. Step two entails testing the effect of micro finance credit and business size (predictor variables) on financial performance (criterion variable). Finally, in step three, product of standardized values for micro finance credit and business size (interaction term) was introduced and tested for its significance on financial

performance. Moderating effect happens if the effect of interaction is significant in the third step.

The three steps involved in stepwise regression analysis were written as:

Step One: $Y=\beta_0+\beta_1X_1+e$

Step Two: $Y=\beta_0+\beta_1X_1+ \beta_2M+e$

Step Three: $Y=\beta_0+\beta_1X_1+ \beta_2M+\beta_3X_1*M+e$

Where, β_0 represents Constant Term, β_i; i = 1-3 is the regression coefficients which measures the change induced on the study variables; X_1=Micro finance credit; M = Business size; X_1*M=Interaction Term between micro finance credit and business size; Y= Financial Performance and; e=Error Term.Table 4.16 shows the study findings.

Table 4. 15: Regression Results for the Moderating Effect of Business Size on the Effect of Micro Credit Finance and Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.570	.568	.45787
2	.796[b]	.634	.630	.42378
3	.800[c]	.640	.634	.42112

a. Predictors: (Constant), Microcreditfinance
b. Predictors: (Constant), Microcreditfinance, BusinessSize
c. Predictors: (Constant), Microcreditfinance, BusinessSize, MFCBS

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.426	1	51.426	245.305	.000[b]
	Residual	38.784	185	.210		
	Total	90.209	186			
2	Regression	57.165	2	28.582	159.154	.000[c]
	Residual	33.045	184	.180		
	Total	90.209	186			
3	Regression	57.756	3	19.252	108.561	.000[d]
	Residual	32.453	183	.177		
	Total	90.209	186			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.454	.179		2.530	.012
	Microcreditfinance	.885	.057	.755	15.662	.000
2	(Constant)	.461	.166		2.779	.006
	Microcreditfinance	.547	.079	.467	6.883	.000
	BusinessSize	.328	.058	.383	5.653	.000
3	(Constant)	-.155	.375		-.412	.681
	Microcreditfinance	.743	.133	.634	5.573	.000
	BusinessSize	.545	.132	.638	4.121	.000
	MFCBS	-.067	.037	-.404	-1.826	.022

a. Dependent Variable: FinancialPerformance

Source: Field Data (2019)

Step one of model one study results in Table 4.16 indicate that there is a positive relationship between micro credit finance and financial performance (R=0.755) and also micro credit finance accounts for 57% of the financial performance of SMEs in Nyamira Town (R^2=0. 570). The t-statistic value of was found to be statistically significant implying that micro credit finance results to a significant and positive effect on financial performance hence meeting the first test for moderation.

Table 4. 16 step two of model depicts that there is a positive relationship between micro credit finance and business size on financial performance (R=0.796) and also micro credit finance and business size account for 63.4% of the financial performance of SMEs in Nyamira Town (R^2=0. 634).Business size alone accounts for 6.4% of the variability in financial performance of SMEs in Nyamira Town. The study t-statisticvalue was statistically significant implying that micro credit finance and business size result to a significant positive effect on financial performance. The study results also depict that micro credit finance and business size had a significant contribution on financial performance hence justifying the second criteria for moderation.

In model three depicted in Table 4.16, the study opines that there is a positive relationship between micro credit finance, business size and interaction term on financial performance (R=0.800) and also micro credit finance, business size and interaction term account for 64% of the financial performance of SMEs in Nyamira Town (R^2=0. 640). The interaction term alone accounts for 0.6%of the variability in financial performance of SMEs in Nyamira Town. Given that the interaction of micro credit finance and business size on financialperformance was statistically significant (t=-1.826, α =0.022 and p-value=0.05 thus α>p-value), the third condition in testing for moderation in step three of

model three was met hence the study rejected the fourth research hypothesis and concluded that business size had a moderating effect on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and relevant recommendations of the study. The study sought to to establish the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya. Summary of the findings, conclusions and recommendations of the study are based on each research objectives.

5.2 Summary of the Findings

5.2.1 Microfinance Loans on Financial Performance

The study found out that most respondents fairly agreed (mean=3) that: Bank loans easily accessible; Loan repayment terms very friendly; Microfinance provides the requested loan amount; Total credit finance accessed through semi informal sector; Most financial institutions reluctant to provide SMES with long term credit facilities; and Application fees affects the cost of acquiring loans. In general, it can be deduced that microfinance loan availability and accessibility of SMEs in Nyamira Town is fairly adequate.

The study correlation results found out that there is a positive and significant relationship between microfinance loan and financial performance. The study findings on regression analysis found out that microfinance loan was a significant determinant of financial performance in SMEs in Nyamira Town thus availability and accessibility of microfinance loan results to an increase in financial performance. The study thus rejected

the first hypothesis and concluded that microfinance loan has a a positive and significant influence on the financial financial performance of SMEs in Nyamira Town.

5.2.2 Microfinance Savings on Financial Performance

It was observed from the study that most respondents fairly agreed (mean=3) that: Their savings enables them to get loans for business expansion; It is simple and easy to open a savings account; MFIs allow them to open a savings account with minimum or no cost; Their savings earns interest which helps me expand my business; and MFIs has no minimum and maximum saving. In general, it can be concluded that microfinance savings of SMEs in Nyamira Town is fairly adequate.

The study correlation results indicated that there is a positive and significant relationship between microfinance saving and financial performance. The study findings on regression analysis showed that microfinance savingwas a significant determinant of financial performance in SMEs in Nyamira Town hence availability of microfinance savings lead to an increase in financial performance. The study thus rejected the second hypothesis and concluded that microfinance saving has a a positive and significant influence on the financial financial performance of SMEs in Nyamira Town.

5.2.3 Microfinance Insurance on Financial Performance

Study results indicated that most respondents fairly agreed (mean=3) that: Insurance services for SMEs are accessible; Microfinance offers favourable collateral insurance; Microfinance offers favourable insurance covers to SMEs; The SMEs savings acts as insurance for our business; Insurance cover enables business continuity in the event of

any risk. In general, it can be concluded that microfinance insurance in SMEs in Nyamira Town is fairly adequate.

The study correlation results depicted that there is a positive and significant relationship between microfinance insurance and financial performance. The study findings on regression analysis depicted that microfinance insurancewas a significant determinant of financial performance of SMEs in Nyamira Town thus insured businesses have a low risk profile which results to an increase in financial performance. The study thus rejected the third research hypothesis and concluded that microfinance insurance has a a positive and significant influence on the financial financial performance of SMEs in Nyamira Town.

5.2.4 Business Size, Micro Credit Finace and Financial Performance

The study found out that business size plays a very important role in moderating the effect of micro credit finance and financial performance. This was indicated by the moderate agreement (mean=3) that: Microfinance loans enables SMEs acquire more asset; SMEs assets are attached as collateral; Adequate fixed assets for SMEs operation allows them to save for current asset; Accessibility to loans enable SMEs to open more branches; SMEs branches expansion is due to increase in loans advanced to SMEs; and Insurance covers has reduced risks associated with SMEs business expansion. In general, it can be concluded that bank size has a moderate influence on micro credit finance of SMEs in Nyamira Town.

Study step one of moderated model one indicate that there is a positive relationship between micro credit finance and financial performance and also micro credit finance

accounts for 57% of the financial performance of SMEs in Nyamira Town. The t-statistic value of was found to be statistically significant implying that micro credit finance results to a significant and positive effect on financial performance hence meeting the first test for moderation.

Study step two of moderated model depicts that there is a positive relationship between micro credit finance and business size on financial performance and also micro credit finance and business size account for 63.4% of the financial performance of SMEs in Nyamira Town. Business size alone accounts for 6.4% of the variability in financial performance of SMEs in Nyamira Town. The study t-statistic value was statistically significant implying that micro credit finance and business size result to a significant positive effect on financial performance.

Study moderated model three depicted that there is a positive relationship between micro credit finance, business size and interaction term on financial performance and also micro credit finance, business size and interaction term account for 64% of the financial performance of SMEs in Nyamira Town. The interaction term alone accounts for 0.6% of the variability in financial performance of SMEs in Nyamira Town. Given that the interaction of micro credit finance and business size on financial performance was statistically significant the third condition in testing for moderation in step three of model three was met hence the study rejected the fourth research hypothesis and concluded that business size had a moderating effect on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya.

5.3 Conclusion

The conclusions were arrived based on the summary of the findings on each study objectives.

5.3.1 Microfinance Loans on Financial Performance

The study concluded that SMEs access and availability of microfinance loan is fairly adequate. This is hindered by loan repayment terms, loan application fees and reluctance of financial institution to provide SMEs with loans due to their high risk profile. The study also concluded that there was a positive and significant relationship between microfinance loans and financial performance in SMEs in Nyamira Town.

5.3.2 Microfinance Savings on Financial Performance

In regard to microfinance savings, the study concludes that SMEs often save but their saving is inadequate to allow business expansion. However, the saving by SMEs have been enhanced through: Allowing them to borrow loans using saving as collateral, having no minimum or maximum savings with the financial insitutions, earning interest from the savings, and opening of saving accounts at minimum or at no cost. The study also concluded that there is a positive and significant relationship between microfinance savings and financial performance in SMEs in Nyamira Town.

5.3.3 Microfinance Insurance on Financial Performance

The study concludes that most SMEs are fairly insured thus exposing them to risks that can have a negative impact on their financial performance. This can be attributed to;

collateral requirement by the financial institutios which may be out of reach, low saving by the SMEs thus lack security for their loans and high SMEs risk profile which inhibit their continuity. It was also concluded that there is a high positive and significant relationship microfinance insurance and financial performance of SMEs in Nyamira Town

5.3.4 Business Size, Micro Credit Finace and Financial Performance

The study concluded that that business sizel play a very important role in moderating the effect of micro credit finance and financial performance. This is because business with large market share and size are associated with; low risk profile, adequate asset for collateral, fast expansion, large customer base and better profits. The study also concluded that business size plays an important moderating role in the relationship between micro credit finance and financial performancethus an increase in R-squared value. This resulted to a positive and significant relationship micro credit finance and financial performanceof SMEs in Nyamira Town.

5.4 Recommendations

The recommendations were made based on the conclusion of each study objectives.

5.4.1 Microfinance Loans on Financial Performance

Since microfinance loan leads to an increase in SMEs financial performance, the study recommends that SMEsshould consider taking loans so as to expand their business and enhance financial performance. This can be undertaken through; favourable loan repayment terms by financial insitutionsand reduction of loan application fees.

5.4.2 Microfinance Savings on Financial Performance

The study recommends that SMEs should be encouraged to adopt a spirit of saving so as to realized improved financial performance. This can be encouraged by; Allowing SMEs to borrow loans using saving as collateral, having no minimum or maximum savings with the financial insitutions, allowing SMEs to earn interest from their savings, and aloowing them to open saving accounts at no cost.

5.4.3 Microfinance Insurance on Financial Performance

Since the study found out that there is a positive and significant relationship between microfinance insurance and financial performance, the study recommends that SMEs should embrace the culture of insuring their businesses so as to reduce exposing their busness to various risks that may hinder their financial profitability in the long run.

5.4.4 Business Size, Micro Credit Finace and Financial Performance

The study recommends that SMEs should expand their business size interms of acquiring more assets and opening of branches. This is because, the study found out that business size strengthened the relationship between micro credit finance and financial performance of SMEs.

5.5 Suggested Areas for Further Research

Arising from the summary of the key findings, conclusions and recommendations the study proposes the following:

i. Since the study found out that business size moderate relationship between micro credit finance and financial performance, a study should be carried out mainly

focusing on the effects of business size on the relationship between micro credit finance and financial performance to see how to control the moderating effect .

ii. This study concentrated on effects of micro credit finance and financial performance, a replica study should be done for all SMEs Kenya thus helping in generalization of the study findings for all SMEs in Kenya.

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APPENDICES

Appendix I: Letter of introduction

NEBART KIGWA

P. O. BOX 190-50100

KAKAMEGA

DATE:…….

TO SME TRADER

…….

P. O. BOX……

NYAMIRA

Dear Sir/Madam

RE: REQUEST TO COLLECT DATA IN YOUR FIRM

I am master student pursuing Master Business Administration (Finance Option) in Masinde Muliro University of Science and Technology. I am currently working on my research proposal on ***"Effect of Micro Credit Finance on Financial Performance of Small and Medium Enterprises in Nyamira Town, Kenya".***I therefore write to request for permission to collect data in your firm. The information to be provided will strictly be used for academic purposes only and will be treated with utmost confidence it deserves.

Thanks in advance

Yours sincerely

NEBART KIGWA

Appendix II: Letter of Approval

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

Tel: 056-30870
Fax: 056-30153
E-mail: directordps@mmust.ac.ke
Website: www.mmust.ac.ke

P.O Box 190
Kakamega – 50100
Kenya

Directorate of Postgraduate Studies

Ref: MMU/COR: 509099 **Date:** 26th September, 2019

Kigwa Mayaya Nebart,
MBA/G/06/2016,
P.O. Box 190-50100,
KAKAMEGA.

Dear Mr. Mayaya,

RE: APPROVAL OF PROPOSAL

I am pleased to inform you that the Directorate of Postgraduate Studies has considered and approved your Masters proposal entitled: ***"Micro Credit Finance and Financial Performance of Small and Medium Enterprises in Nyamira Town, Kenya"*** and appointed the following as supervisors:

1. Dr. Benedict Alala - SOBE, MMUST
2. Mr. Albert Odhiambo - SOBE, MMUST

You are required to submit through your supervisor(s) progress reports every three months to the Director Postgraduate Studies. Such reports should be copied to the following: Chairman, School of Business and Economics Graduate Studies Committee and Chairman, Business Administration Department. Kindly adhere to research ethics consideration in conducting research.

It is the policy and regulations of the University that you observe a deadline of two years from the date of registration to complete your Masters thesis. Do not hesitate to consult this office in case of any problem encountered in the course of your work.

We wish you the best in your research and hope the study will make original contribution to knowledge.

Yours Sincerely,

Prof. John Obiri
DIRECTOR, DIRECTORATE OF POSTGRADUATE STUDIES

Appendix III: Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **853407**

Date of Issue: **15/October/2019**

RESEARCH LICENSE

This is to Certify that Mr.. Nebart Kigwa of Masinde Muliro University of Science and Technology, has been licensed to conduct research in Nyamira on the topic: MICRO CREDIT FINANCE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NYAMIRA TOWN, KENYA for the period ending : 15/October/2020.

License No: **NACOSTI/P/19/2248**

853407

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013

The Grant of Research Licenses is Guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014

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Appendix IV: SMEs Traders Questionnaires

This study is based *on* ***"Effect of Micro Credit Finance on Financial Performance of Small and Medium Enterprises in Nyamira Town, Kenya".***

Instructions:

a) Give brief answers in the spaces provided.

b) In the boxes given, please tick appropriately.

SECTION A: BACKGROUND INFORMATION

1. Gender

   Male [ ] Female [ ]

2. Age

   15-20 years [ ] 21-30 years [ ] 31- 40 years [ ]

   Above 41 years [ ]

3. Business type: Small [ ] Medium [ ]

4. SMEs Sector

   Manufacturing [ ] Trading [ ] Service [ ]

5. For how long has the SMES been in operation?

   10 years or less [ ] 11 to 20 years [ ] 21 to 30 years [ ]
   More than 30 years [ ]

6. Level of education

   Primary Education [ ] Secondary Education [ ] Diploma [ ]

   Bachelor Degree [ ] Master Degree [ ] None [ ]

SECTION B: STUDY VARIABLES

Part I: Microfinance Loans

8. To what extent do you agree with the following statements? Use a scale of 1 to 5 where; [1]-Strongly disagree [2]-Disagree [3]-Moderately Agree [4]-Agree [5]-Strongly Agree

	1(SD)	2 (D)	3 (MA)	4 (A)	5 (SA)
Bank loans are easily accessible and available					
Loan repayment terms from microfinance are very friendly to us					
Microfinance provides us with requested loan amount					
Total credit finance are accessed through semi informal sectors					
Most financial institutions are reluctant to provide SMEs with long-term credit facilities					
Application fees affects the cost acquiring loans					

Part II: Microfinance Savings

9. To what extent do you agree with the following statements? Use a scale of 1 to 5 where; [1]-Strongly disagree [2]-Disagree [3]-Moderately Agree [4]-Agree [5]-Strongly Agree

	1(SD)	2 (D)	3 (MA)	4 (A)	5 (SA)
My savings enable me to get loans for business expansion					
It's simple and easy to open a saving account					
MFIs allow us to open saving accounts with minimum or no cost					
My savings earns interest which help me expand my business					
The MFIs has no minimum and maximum saving hence can save any amount of money					

Part III: Microfinance Insurance

10. To what extent do you agree with the following statements? Use a scale of 1 to 5 where; [1]-Strongly disagree [2]-Disagree [3]-Moderately Agree [4]-Agree [5]-Strongly Agree

	1(SD)	**2 (D)**	**3 (MA)**	**4 (A)**	**5 (SA)**
Insurances services for SMEs are accessible and available					
Microfinance offers us with favourable collateral insurance					
Microfinance offers various insurance covers which are favourable to SMEs					
The SMEs savings acts as insurance for our business					
Insurance cover has enabled business continuity in the event of any risk					

Part IV: Business Size

11. To what extent do you agree with the following statements? Use a scale of 1 to 5 where; [1]-Strongly disagree [2]-Disagree [3]-Moderately Agree [4]-Agree [5]-Strongly Agree

	1(SD)	**2 (D)**	**3 (MA)**	**4 (A)**	**5 (SA)**
Microfinance loans enables SMEs acquire more asset					
SMEs assets are attached as collateral					
Adequate fixed assets for SMEs operations allows them save to acquire current asset					
Accessibility to loans has enable SMEs open more branches					
SMEs branches expansion is due to increase in loans advanced to SMEs					
Insurances covers has reduced risks associated with SMEs business expansion					

Part V: Financial Performance of SMEs

12. To what extent do you agree with the following statements? Use a scale of 1 to 5 where; [1]-Strongly disagree [2]-Disagree [3]-Moderately Agree [4]-Agree [5]-Strongly Agree

	1(SD)	**2 (D)**	**3 (MA)**	**4 (A)**	**5 (SA)**
There has been a growth in business turnover over the past years facilitated by microfinance loans					
Microfinance insurance enables SMEs reduce business risks and hence profitability increase					
Microfinance institutions offers us a varieties of credits facilities which results to increase in profitability					
My savings with MFIs enables SMEs acquire more stocks and fixed asset					
Microfinance savings over the years has enable SMEs to accumulate more capital					
MFIs insurance cover has boosted SMEs business turn over the years					

Thanks for your participation