The SME sector has a huge role to play towards poverty alleviation in Kenya. However, their capacities to create employment and optimal performance will depend to a great extent on the accessibility of credit facilities provided by Micro finance Institutions.

The objective of this study was to evaluate the performance of selected Micro finance Institutions in Nairobi especially as relates to their provision of credit to SMEs. The study also looked at measure put in place by MFIs towards achieving Sustainability in a bid to increase their outreach of credit facilities to SMEs. Various categories of MFIs were covered, namely Non-Governmental Organizations (NGOs), Development Finance Institutions (DFIs) and Commercial Banks. Data was collected using a semi-structured questionnaire as well as personal interviews.

The study realized that MFIs have a huge role to play towards poverty alleviation through credit accessibility to SMEs. Their performance was, however, affected by factors such as limited financial resources, delinquent loans, and loans lack of a management information system, wide geographical coverage, poor research and development department, among other factors. Sustainability was also found to be a thorny issue. Achievement of sustainability was found to be constrained by factors such as inadequate savings by clients, huge operating costs, provision of non-financial services, legal constraints, subsidized interest rates, among others.

The study found out that the regression results were not significant at 5 percent level of significance. However, there was positive correlation between the dependent variable (performance) and loan amounts, repayment rate and sustainability. Cost per unit of currency lent was negatively correlated to performance.

On the basis of these findings, a numbers of recommendations are advanced. First, there is need for MFIs to seriously consider joint ventures with each other to avoid duplications as well as ensure cost effectiveness. Second, MFIs need to charge positive interest rates, source funds from commercial sources, identify their market niche as well concentrate on their core business. Third, the government on the other hand needs to streamline the operations of MFIs by having clear-cut policies on the micro finance sector. A regulatory body should be put in place to oversee the smooth running of MFIs. The government also needs to address legal issues facing MFIs. Appropriate incentives need to be established if MFIs are to be a major stimulant to poverty alleviation in Kenya. There is need to strengthen the country's small enterprise sector (Jua Kali) capacity to enable them play their right full role in both poverty alleviation and industrialization.

Lastly, it is recommended that similar studies be carried out on a larger scale, involving more respondents and with variables measured differently. It is also suggested that a study be carried out to evaluate performance of informal lending sources, such as ROSCAs.