

**MICRO CREDIT ACCESS AND FINANCIAL PERFORMANCE OF MICRO,  
SMALL AND MEDIUM ENTERPRISES IN BARINGO COUNTY, KENYA**

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of the Requirement for the Award of the Degree of Master of Business  
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**DECLARATION**

This research project report is my original work and has not been presented for a degree in any other university or academic institution for the purposes of examination or academic award.

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## **DEDICATION**

I dedicate this research project to dear wife Naomi, my daughters Joy and Judith and my son David for their continuous encouragement and support. Their encouragement and love saw this project a success.

## **ACKNOWLEDGEMENT**

I express my sincere gratitude to almighty lord for enabling me accomplish this without whom I would not have come this far. I am greatly indebted to my supervisor Dr. Mungai, J. N. who has been supportive by making valuable corrections and advice.

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## **ABBREVIATIONS AND ACRONYMS**

<b>FFI</b>	Formal Financial Institutions
<b>G.O.K</b>	Government of Kenya
<b>IFC</b>	International Finance Corporation
<b>ILO</b>	International Labour Organization
<b>KNBS</b>	Kenya National Bureau of Standards
<b>MFIs</b>	Micro-Finance Institutions
<b>MSME</b>	Micro Small and Medium Enterprises
<b>PRISM</b>	Promoting Improved Sustainable MSME Financial Service
<b>UN</b>	United Nations
<b>US</b>	United States
<b>USAID</b>	United States Agency for International Development

## OPERATIONAL DEFINITION OF TERMS

<b>Collateral</b>	Property or resources that a borrower offers a bank as a security for an an advance.
<b>Credit access</b>	It is the possibility and the chance of eligibility of a person or a business to cash related services such as protection in form of insurance, credit or deposits
<b>Credit risk</b>	It's the danger or risk of loss of invested capital or cash price originating from a borrower's inability to payback a credit or meet a legally binding commitment.
<b>Financial performance</b>	This refers to a general measure of an organization's policies and activities in monetary terms over a given timeframe.
<b>Financial skills</b>	Set of skills and knowledge that allows an individual to make an informed decision with all their financial resources.
<b>Global economy</b>	Global economic action between different nations that are considered interwoven and subsequently can influence other nations.
<b>Government policy</b>	An arrangement step of action, starting at the government level, expected to impact and decide choices, activities, and different issues.
<b>Interest Rates</b>	The sum of money a credit firm charges for utilization of borrowed money calculated as a percentage of the original capital.

<b>Medium enterprises</b>	Is a business that employs more than 50 people but less than 100 people and has a turnover between Ksh 5million - Ksh 800 million.
<b>Micro credit access</b>	Is the ability by the borrower to get credit facilities from micro finance institutions.
<b>Micro credit cost</b>	this is a fee or commission that a borrower needs to pay in order to access a loan or penalty due to late payment
<b>Micro credit</b>	Expansion of exceptionally little advances to those in neediness assigned to advance enterprise.
<b>Micro credit terms</b>	refer to regulations and conditions that qualifies a borrower to access a loan
<b>Micro enterprises</b>	Is a small business employing nine people or fewer.
<b>Micro finance</b>	refers to different of money services such as credit protection, savings and remittances provided to the entrepreneurs.
<b>Net Profit level</b>	Refers to the percentage of revenue left after all expenses have been deducted from sales.
<b>Poverty</b>	The state of being extremely poor.
<b>Repayment period</b>	Period at which it takes to repay back the loan.
<b>Small enterprises</b>	Is a business comprising of less number of staff and less cash flows

## ABSTRACT

Micro-small and medium-sized enterprises are the backbone of economic activity in Kenya. The MSMEs in Kenya have not performed well as expected and thus has not played anticipated and as required economic growth and advancement of Kenya. Medium and Small enterprises have specific shortcomings that influence their development and growth and thus limit their capacity to make a positive contribution to the sustainable development of the economy. Among those issues is lacking access to credit services. The specific objectives of this study were: to find out the relationship between micro-credit access and financial performance, to determine the impact of micro-credit costs on access to micro-credit by small and medium enterprises in Baringo central constituency, to examine the impact of collateral requirements on micro-credit access by small and medium enterprises and to develop the role of financial management skills training in Baringo Central constituency. This study used descriptive research design. The most effective sampling method was stratified random sampling. Data was then analyzed by descriptive method and presentation was done in form of means, standard deviations, and percentages. The study was carried out in Baringo County on business operators falling under MSMEs. The researcher categorized each of the divisions as a stratum and 90 respondents were selected from the four strata proportionately depending on the population of MSMEs in each of the divisions. The researcher used structured questionnaires with both closed and open-ended questions to collect the data. Data from the research instrument were coded and analyzed using the statistical package for social science Package (SPSS). The results of this study reveal that micro credit terms, micro credit cost, collateral requirement and financial management skills, affect the financial performance of MSMEs in Baringo Central Constituency, Baringo County. Micro credit terms affect the financial performance of MSMEs in Baringo Central Constituency, Baringo County positively ( $\beta_1 = 0.410$ ,  $p < 0.05$ ). Micro credit costs have a negative and significant effect on financial performance of MSMEs in Baringo central constituency, Baringo County ( $\beta_2 = -0.224$ ,  $p < 0.05$ ). Collateral requirements have a significant and negative effect on financial performance of MSMEs in Baringo Central Constituency, Baringo County ( $\beta_3 = -0.184$ ,  $p < 0.05$ ). Financial management skills training has a negative and significant effect on financial performance of MSMEs in Baringo Central Constituency, Baringo County ( $\beta_4 = -0.196$ ,  $p < 0.05$ ). The study concludes that micro credit terms, micro credit cost, collateral requirement and financial management skills are some of the variables significant in financial performance of MSMEs in Baringo Central Constituency, Baringo County. Based on the conclusions reached, the study recommends that the MSMEs in Baringo Central Constituency, Baringo County should take into account the micro credit terms, micro credit cost, collateral requirement and financial management skills since the study revealed a positive significant effect on financial performance by this attribute. The findings of this study are significant as they will enable decision makers to adjust their policies to eliminate obstacles hindering micro credit access as well as improve financial performance in MSMEs.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

The SMEs refers to Micro, and Small Enterprises, at times used to refer to (MSMEs) micro, small and medium enterprises. MSEs can be defined as an economic activity through which production, distribution of goods and services is undertaken in the informal sector (Kessy & Urio, 2006). Micro small and medium enterprises are the backbone of the economy in Kenya. Micro-credit refers to small credit advances given to the poor to undertake self-employment businesses that generate income (GOK 2009). The Kenyan Government has recognized the importance of small enterprises in the Kenyan economic environment, hence through Vision 2030 department it has envisaged to strengthen MSMEs to become major industries through improvement of their Production and innovative mechanisms (Ministry of Planning, National Development & Vision 2030, 2007). The contribution of MSMEs in Kenya is two times more than what bigger sector in manufacturing contributes which is seven percent of the Gross Domestic Product (Government of Kenya, 2010).

The Kenya MSME bill 2009 has defined SMEs using two criteria: The number of employees hired by SMEs, total investments and the company's annual turnover (Ngugi & Kerongo, 2014). This criterion has categorized a micro enterprise as that which has between one and nine employees and a yearly turnover of Kshs half a million while a small enterprise is that business which employs between eleven and forty nine employees and a yearly turnover of between a half a million and five million shillings to eight hundred million shillings (Anyansi-Archibong & Anyansi, 2014). MSME cover activities not

related to farming such as manufacturing, commerce, mining and services. The barriers to MSMEs in accessing micro credit facilities is due to perception by financial institutions that offering micro credit facilities to MSMEs is risky, failure by MSMEs to fulfill collateral requirement, high screening cost and failure by traders to prepare and present attractive business plan that capture the attention of the financial institutions (GOK, 2009).

Many MSME operators believe Commercial banks have little experience with them hence lack the skills to assess the credit risks involved which in turn contributes to their reluctance to Meet the rising demand for financial services in the sector (Gichuki, Njeru & Tirimba, 2014). Micro credit lenders are concerned that many micro-enterprises do not understand how to deal with them and therefore need to improve their business and credit practices before financial institutions can rate the sector as a viable and profitable business. As a consequence of these viewpoints, both the supply and demand for micro-enterprise credit services in Nigeria are not being adequately addressed (USAID, 2005)

Most countries in the world have come to realize the role of business enterprises in social economic development.in developing micro small and medium enterprises have been a source of employment for decades. A number of governments in developing countries have been emphasizing of boosting of economic growth through enactment of policies that support micro small and medium enterprises (Alemany, 2014)

Micro enterprises often lack the capability to present their business to lenders. Due to limited credit history, poor financial reporting and business planning, they face many challenges (Karadag, 2015). Their participation in the informal sector is because of poor

access to micro credit. MSMEs lack market leverage and also negotiating power with lenders (Government of Serbia, 2010).

According to Omri *et. al.* (2012), those receiving the funds can affect the MFIs in two ways; by taking the cash and efficiently improve the requirements of funding and secondly the longer a debt stays unpaid, the greater it is exposed to risk. The above effect to the MFIs can be negative and can bring the business down. Managing of finance therefore involves balancing and optimizing of resources to realize growth of MSEs. According to Nguyen (2001) financial analysis, financial reporting, fixed-asset management and accounting information are some of the practices which are more related to SMEs financial performance and profitability in Vietnam.

### **1.1.1 MSMEs in Baringo Central Constituency**

Baringo Central constituency borders the following constituencies, Mogotio, Baringo south, Baringo North, Eldama Ravine and Keiyo South. It covers an area of 799.9KM square with a population of 89,174 people, (KNBS, 2012). According to Baringo County Annual Development Plan 2016-2017 Micro small and medium enterprises in Baringo Central Constituency cut across all sectors such as informal sector. This sector normally operates in open places. There is also wholesale and retail sector and other enterprises which fall under service industry. There are 900 registered businesses in the four Divisions. This sector is scattered in the four Divisions of Baringo Central Constituency, (County Government of Baringo, 2017).

### **1.1.2 Accessibility of Micro-Credit**

Micro credit accessibility is the ability by the borrower to get credit facilities from micro finance institutions. According to ILO (2009) access to micro credit and inadequate demand are the main inhibitors that affect small scale enterprises in this dispensation. Authorities have mitigated through adjustments in policies governing monetary system, empowering financial institutions, promoting giving out of loans and stimulating demand through enactment of favorable policies. Access to micro credit services for SMEs remains severely constrained in many emerging markets following the emergence of the global financial crisis. The lending volumes are still lower than before and SMEs still have limited access to micro credit even when liquidity is restored to financial institutions (IFC, 2012). World Bank (2005) The survey showed that large enterprises have more accessibility to financial services and micro-credit both locally and internationally than small firms did. In poor countries, the MSME size of job creation is bigger because they have large informal economies which are dominated by micro enterprises.

According to Quaye (2011) Micro Small and Medium Enterprises normally have low opportunities to access micro credit facilities and other credit support services provided by micro lenders due to several factors: MSMEs cannot provide the mandatory loan security required by financial institutions, the banks find it costly when dealing with small firms since it is cumbersome to recoup on the costs incurred on them and also there are the some risks attached to giving out loans to MSMEs that discourage banks from doing business with them.

In Kenya, Smaller businesses still face challenges related to accessing micro credit. Financial institutions still demand for collateral as a commitment for micro credit facility.

Micro enterprises find it difficult to provide collateral that is acceptable to lenders. They either do not have the assets to offer as a commitment for a loan or there are other factors inhibiting their ability to offer a proper security, such as the state of the collateral and sometimes absence of a license. Also, many MSMEs do not keep their assets in a state it can be used to borrow loans, (GOK, 2010).

### **1.1.3 Performance of MSMEs in Baringo County**

In Baringo, SMEs play a very important role in financial development and growth. According to Samuel, Nyakundi and Osodo (2019) in the first three years of operation, three out of five MSMEs in Baringo County do not make it and those who survive are likely to fail before the fifth year. They estimate that almost 46% of SMEs die within one year and 15% of SMEs completely close down after one years. For example, fish farming in Baringo county which is one of MSME in the county have been performing poorly. MSME face a number of constraints, that make it difficult to access credit. They are also rated as high-risk borrowers in commercial banks. Most MSME in the county rely on the personal savings, others on domestic aid such as family, friends or relatives for funding. Banks on the other hand are not flexible and they remain reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the SMEs (Muguchu, 2013). According to Chelimo and Sopia (2012) MSMEs with micro credit access and good bookkeeping have enhanced growth and business expansion as measured by profitability and increased business expansion in Kabarnet town. According to Komen (2014) SMEs were experiencing several barriers to accessing micro credit for their business due to lack of any formal training in business skills. Wachira (2012) observed that few Women owned income generating projects borrow from financial institutions due to the collateral

requirement. Interest rates affect the performance of business enterprises as measured by the revenues, growth in business and enterprise profitability. Therefore, the poor performance of MSME in Baringo County is of interest to most researchers and government.

## **1.2 Statement of the Problem**

In Kenya, MSMEs have not performed as expected hence has not contributed fully in the economic development of economy. According to Mira and Ogollah (2013) lack of collateral security, lack of information access, limited knowledge level and skill and socio-cultural factors contributed negatively towards the accessibility of credit. Cheluget (2013) observed that interest rates inhibited access to micro credit by entrepreneurs owning businesses given that sales, profit margins and cash flow are the lifeblood of a business. Having knowledge on financial position becomes even more important as the business grows. The study findings however failed to show how access to micro credit finance help in boosting the performance of the business.

According to International Finance Corporation (2012), some of the challenges faced by Micro enterprises include technological change, lack of access to micro credit, absence of ability to do innovation, absence of training in management, poor infrastructure, scanty market information and inadequate education. Gangata and Matavire (2013) in Beleway, Zimbabwe observed that micro enterprises do not access loans due to restrictions by the banks the main one being loan security. However, the above studies failed to outline how the challenges have influenced the performance of MSMEs

In Baringo County most MSMEs normally encounter problems, which inhibit their growth and profitability and also their tendency to promote economic advancement as revealed by Kimaru (2014) on the study of Effect of micro finance institution activities on the performance of small and medium enterprises in Mogotio District, Baringo county, who observed that Very few micro enterprises reached the mark of 50,000 shillings as their start-up capital for their business and thus affected greatly their rate of growth . The majority of those micro enterprises which made profits were only able to collect about 20,000 shillings which is inadequate to use as a collateral security to borrow money to expand their businesses. Wachira (2012) observed in Eldama Ravine Town, Baringo County, that most micro enterprises have reduced revenues and profits as a result of high interest rates that are charged by the micro credit institutions. Frequent banking of daily revenues is lacking in most of the micro enterprises which leads to misuse of sales revenues which in turn leads to loss of profits among micro enterprises in Eldama Ravine Town, Baringo County. However, the study focused on banking sector unlike my study which looks much on micro small and medium enterprise. It is from the background that gaps has been identified in that the empirical studies have not specifically looked at the effect of micro credit access variables: micro credit terms, micro credit cost, financial management skills and collateral requirement on financial performance in Baringo County that made it necessary to conduct a study in micro credit access and financial performance in micro small and medium enterprises in Baringo central constituency, Baringo County.

### **1.3 Objectives of the Study**

The study was guided by both general and specific objectives;

### **1.3.1 General Objectives**

The general objective is to investigate the Influence micro-credit access to financial performance of micro, small and medium enterprises in Baringo Central Constituency, Baringo County, Kenya

### **1.3.2 Specific Objectives**

- (i) To determine the influence of micro-credit terms to financial performance of MSMEs in Baringo central constituency.
- (ii) To examine the influence micro-credit cost on financial performance by MSMEs in Baringo central constituency.
- (iii) To find out the influence of collateral requirement on financial performance by MSMEs in Baringo central constituency.
- (iv) To determine the influence of financial management skills on financial performance of MSMEs in Baringo central constituency.

### **1.4 Research Hypotheses**

**H<sub>01</sub>** Micro-credit terms have no significance influence on financial performance of micro small and medium enterprises

**H<sub>02</sub>** Micro-credit cost have no significance influence on financial performance of micro small and medium enterprises

**H<sub>03</sub>** Collateral requirement have no significance influence on financial performance of micro small and medium enterprises

**H<sub>04</sub>** Financial management skills have no significance influence on financial performance of micro small and medium enterprises

### **1.5 Significance of the Study**

The study sought to determine micro credit access and financial performance on micro small and medium enterprises in Baringo central constituency. The study was important in evaluating the challenges which MSMEs face in accessing micro credit and finding out how micro credit access affect financial performance.

The findings of this study will enable decision makers to adjust their policies to eliminate obstacles hindering micro credit access which will then enhance profitability which is a measure of financial performance in MSMEs. This study will also help them understand the challenges faced by other related SMEs and thus helping the managers improve on their performances.

The information from this study will form a reference point in future research as this research adds to the existing financial performance literature. This research will also provide a forum for scholars to do discussion on Micro credit access and financial performance of MSMEs.

### **1.6 Scope of the Study**

The study sought to determine the influence of micro credit terms, micro credit cost, collateral requirements, and financial management skills training on the financial performance of MSMEs in Baringo central constituency, Baringo County. The study was limited to registered business enterprises that fall under category of micro small and medium enterprises and was carried out in Salawa, Tenges, Sacho and Kabarnet Divisions of Baringo Central Constituency, Baringo County. The study was carried out after

obtaining research authorization letter from County commissioner- Baringo and data collected was cross sectional.

### **1.7 Limitations of the Study**

Challenges of response rate on the target group were expected in this case study. This was overcome by explaining to the respondents that the study was mainly for academic purposes only and data obtained would be kept as confidential. In this study it was not easy to convince the respondents to return the filled questionnaires in time since some of them misplaced the questionnaire forms and took time tracing them.

### **1.8 Organization of the Study**

This chapter presented background details on microcredit access and financial results for micro and medium-sized enterprises in Baringo Central Constituency, Baringo County. This study contains five chapters. Chapter one highlights the background of the study , the problem statement, the purpose of the study, the objectives, the research questions, the significance of the study, the limitations of the study and the organization of the study. Chapter two highlights the introduction, Theoretical Framework, the credit rationing theory, Agency theory, Credit risk theory, Empirical literature review, summary of literature review Gaps and conceptual framework. Chapter three highlights research design, target population, sampling procedure data collection procedure, research instruments validity and reliability, data analysis techniques and ethical considerations. Chapter four highlights results and discussion on correlations coefficient analysis, regression analysis and tests of hypothesis and Chapter five highlights summary, conclusion and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers the theoretical framework, empirical literature review and conceptual framework. The importance of literature review is that it informs the reader about research conducted previously on the topic being researched, to set a framework for establishing the significance of study, to show the gaps in previous studies and to set a standard for comparing one's findings with previous discoveries. The conceptual framework highlights the relationship between the independent and dependent variables.

#### **2.2 Theoretical Framework**

According to University of Southern California (2018) a theoretical framework consists of definitions, concepts, scholarly literature and existing theory that is applied in a particular study. Theoretical framework demonstrates how theories are understood and relevant concepts to a particular area of study which relate to the wider field of knowledge being considered. It connects the researcher to existing knowledge. On the other hand, theories in management of finance include several methods for management, financial operations maintenance and risk reduction involved in various methods of doing it.

##### **2.2.1 The Credit Rationing Theory**

Jaffee and Modigliani (1969) developed a theory of credit rationing and how it can be used to derive an operational credit rationing proxy. They developed some propositions such as the bank's optimal loan offer curve, the banker as a discriminating monopolist, the banker charging all customers at a uniform rate of interest and the generalization to separate

customer classes. According to Kung'u (2011) credit rationing is a measure employed by micro lenders to limit the availability of micro credit based on their evaluation on credit worthiness of borrowers. Raising lending rates above current market rates without conforming to market forces is considered as a form of credit rationing.

According to European commission (2013), the imposition of credit constraints is higher among the micro enterprises. Micro enterprises tend not to apply for micro credit due to their inability to meet credit requirements. Thus, this results in lack of access to micro credit. According to Boucher *et al.*, (2009) Limited availability of micro credit arises when the demand for credit facility is more than the available credit. According to a study in South Africa it was found that limitation of loan access by new enterprises from financial institutions showed that loan security, micro enterprise information, management skills and networking are main factors inhibiting credit access (Fatoki and Odeyemi, 2010). Credit rationing theory which involves micro credit institutions discriminating on some MSMEs on amount of micro credit they can be advanced is due to various factors such as the firm size and credit risk hence when credit is rationed accessibility of micro credit and financial performance of the MSMEs will be affected.

### **2.2.2 Microfinance credit Theory**

The theory was suggested by Dondo (1999), in 1950s established to provide credit to indigeneous Kenyan with small scale enterprises. According to these theories, credits should have less interests as far as accuracy is upheld. With the knowledge of the creditors information on risk profile of its borrowers, the creditor has the authority to impose any interest rates despite of the borrower's risk. The creditor assumes that the borrower utilizes

the loan in accordance to what was intended for despite the risk the borrower might undergo through.

The concept of micro finance credit theory is applicable in microfinance in providing solutions to the limitations of poor credit markets, mostly addressing the challenge of communication channels. Lack of proper communication and flow of information on riskiness of the borrower may lead to different situations of poor selection and behavioral hazards. From the application of the theory, the more risk the borrower is the more interest it is imposed by the creditor to compensate on the increased risk of defaulting. Those subjected to less risk of defaulting as accurately identified should be charged less interest. However, since the creditor has less or incomplete information about its borrowers, higher average interest rates should be passed on to all borrowers regardless of their risk profile.

### **2.2.3 Credit Risk Theory**

Merton (1974) introduced the credit risk theory which describes credit defaulting event arising from a company's assets evolution modeled by diffusion process with constant parameters. Merton proposed a method for assessing the credit risk of a company by characterizing the equity on a call option on its assets. Nagarajan (2011) found out that micro credit institutions needed to manage losses which result from risks which can be contained by managing portfolio and flow of cash by maintaining an institution with robust infrastructure as well as instilling discipline among clients, mostly by coordinating stakeholders. According to Horne (2007) various methods have been developed to appraise clients by financial institutions such as of Credit Reference Bureau.

Kamau (2011) in his study on a system for credit appraising-An application of the Logit Boost Algorithm found that when the demand for consumer credit in retail markets is fast increasing, financial institutions must have a system to which they can process the credit applicants professionally and be able to identify the potential default risk of the borrower. He reported that credit scoring model has been applied to categorize loan applicants successfully to either good or bad credit risk classes.

This theory relates to this study in that financial institutions make credit risk assessment of MSMEs through several methods such as Credit Reference Bureau to minimize credit risk losses occasioned by credit default hence high interest rates is set on loans as well as collateral security is put as a condition to access micro credit which in turn will affect financial performance of the MSMEs.

### **2.3 Empirical Literature Review**

This is literatures that relates with accessibility of micro credit and financial performance of micro small and medium enterprises. A Literature review can also include identifying systematically, its location, and analysis of records with information of value to the problem being researched.

#### **2.3.1 Micro-credit Access and Financial Performance**

Gichuki, Njeru and Tirimba (2014) did a study to assess the what undermines the small and medium enterprises from getting credit services in Kangemi Harambe Market in Nairobi City, Kenya. The objectives of the study included; to assess the effect of collateral requirement on accessing the credit services, to investigate how access to credit facilities by SMEs is influenced by the credit cost, to determine the impact brought by information

availability on MSEs access to credit facilities and to come up with the effect on credit facility access by MSEs brought about by risks on Business. The study employed descriptive research design. From the study findings, only few can access the credit facilities, leaving about more than half of the respondents unable to reach to credit facilities. The current study intends to focus on how factors affecting micro credit access such as micro credit terms, collateral requirement, micro credit cost and financial management skills affect financial performance which is the gap.

Wanambisi, (2013) did a survey on micro and small enterprises to assess the influence of microfinance lending on performance of Business in Kitale Municipality, Kenya. The purpose of the study was to evaluate how micro finance institutions lending affects the performance of MSEs in Kitale Municipality. This study adopted a descriptive survey research design. The study found out that the amount of loan accessed significantly positively related with performance of MSEs in Kitale Municipality. This study did not focus on collateral requirement, micro credit terms, micro credit cost and financial management skills variables and its effect on financial performance and the current study intends to fill this gap.

Rose (2012) did a study on relationship between growth of MSEs and micro credit in Kenya. The objective of the study was to determine the relationship between micro credit and growth of SMEs in Kenya. The study used descriptive and correlation methods. From the findings, access and utilization of micro credit by SMEs leads to increased profitability. The study did not focus on collateral requirement, micro credit terms, micro credit cost and financial management skills variables and its effect on financial performance and the current study intends to fill this gap.

### **2.3.2 Micro Credit Cost and Financial Performance**

Kiende, (2017) identified the determinants of performance for MSEs in Kenya: a case of women enterprises in Meru County, Kenya. The objectives of the study were: To establish how financial accessibility influence performance of Women enterprises in Meru County, to find out how the level of education influence on performance of women enterprises in Meru County and to determine the influence of gender issues on performance of women enterprises in Meru County. This study adopted the descriptive study design. From the findings; High interest rates were charged by financial institutions on loans offered which contributed to decrease in business profits. This study did not focus on collateral requirement, micro credit terms and financial management skills variables and its effect on financial performance and the current study sought to fill this gap.

### **2.3.3 Collateral Requirement and Financial Performance**

Githinji *et al.*, (2019) did a study on effect of collateral requirement on Agribusiness SMEs financial performance in Nyeri Central Sub County, Kenya. The objective of this study was to evaluate how Agribusiness SMEs is affected by collateral requirement in Nyeri central Sub county. Descriptive research design was used in the study. Findings showed a negative influence on afribusiness SMEs caused by collateral requirement. This study did not focus on micro credit cost, micro credit terms and financial management skills variables and its effect on financial performance and the current study intends to fill this gap.

Quaye, (2011) investigated how growth of small and medium scale enterprises are influenced by Micro finance institutions in Kumasi Metropoli. The objectives of this study were: To avail updated profile of the selected MFIs and SMEs in Kumasi metropolis, to assess how MFIs activitie positively improves SMEs growth, to examine the challenges

faced by SMEs in accessing credit services and to investigate how SMEs use credit offered for growth of the Business.

The study made use of Descriptive statistical methods for data analysis, summary and interpretation. From the findings, some of the SME respondents find the process of accessing micro credit as cumbersome due to Inability to provide the collateral securities and High interest rates. This study has not focused on micro credit cost, collateral requirement, micro credit terms and financial management skills variables in relation to financial performance. The current study sought to fill this gap.

#### **2.3.4 Financial Management Skills and Financial Performance**

Omondi and Jagongo, (2018) investigated SMEs financial performance and micro services in Kisumu County, Kenya. The study objectives were; to determine how credit facilities provision influences SMEs financial performance, to examine the influence brought by savings mobilization on SMEs financial performance, to evaluate the relationship existing between financial skills and SMEs financial performance and finally to find out how modeling affects SMEs financial performance. Descriptive study design was used in this study. From the findings the firms have access to limited trainings. Training on financial skills and role modeling affected SMEs financial performance significantly. This study has not focused on collateral requirement, micro credit cost and micro credit terms and current study seeks to fill this gap.

### **2.3.5 Financial performance**

Chen & Huang, (2013) did a study to examine how Quality, size and performance of audit firms influences firm's financial performance. The study aimed at investigating the relationship between audit firm size and audit quality. To extract the human capital-based audit quality the study made use of descriptive statistics and correlation matrix of variables. From the findings, for national, regional and local firms, audit quality and financial performance showed a positive relationship. This study has not focused on micro credit access variables affecting financial performance as it has only focused on audit quality.

Koech, (2011) investigated the financial challenges affecting the SMEs growth in Kenya. The case of Kamukunji District in Nairobi, Kenya. The objective of the study was to analyze the financial factors that constraint SME growth in Kamukunji District. A quantitative, descriptive design was used in this study. From the findings there was a significant growth in these businesses in terms of sales, employment and profits. This research has not focused on micro credit terms, micro credit cost, collateral requirement and financial management skills in relation to financial performance and the current study intends to fill this gap.

### **2.3.6 Growth in Micro Small and Medium Enterprises Sector**

Muiruri, (2014) examined the function of micro finance institutions on growth of MSEs in Thika , Kenya. The study objective was to evaluate the importance of credit institutions of MSEs growth in Thika, Kenya. Cross-sectional survey was used that analyzed both secondary and primary data. The findings on the study demonstrate that MSEs that were given micro credit services showed a growth in sales, output in form of revenues and

increased staff. This study has not focused on the role of micro credit terms, micro credit cost, collateral requirement and financial management skills on financial performance of micro small and medium enterprises hence the gap which the current study seeks to fill.

### **2.3.7 Level of Net profit**

Chong, (2008) examined the factors of bank profit ability in third world countries. The study used the existing literature evidence in Philippines. The study aimed at assessing the factors influencing profitability of MFIs in enhancing economic development. Data analysis was done using regression analysis. From the study, bank profitability was influenced by size, credit risk and overhead expenses while capitalization and non-interest income improved bank profitability. This study has not focused on how micro credit terms, financial management skills, micro credit cost and collateral requirement financial performance which the current study seeks to fill as gap.

### **2.3.8 Organisational performance**

Gavrea *et al.*, (2011) did a study on determinants of Organisational performance: The case of Romania. Before analysis, data variables were first divided into external and internal environment. Data was analysed using regression analysis. For financial performance and non financial performance, there was a significant impact from both practices. This was in regard to strategies such as performance measurement process, innovation and development, external environment and corporate governance. This study has not focused in micro credit terms, micro credit cost, collateral requirement and financial management skills in relation to financial performance which the current study seeks to fill as gap.

## 2.4 Summary of Literature Review and Gaps

There was need to do research on this area given that on their study, Gichuki, Njeru, and Tirimbo (2014) sought to establish the extent to which loan security, cost of micro credit, availability of information and micro enterprise risk affect access to credit facilities. They recommended further research on profitability which is a component of financial performance and also further research on other towns in Kenya since their research only covered Kangemi market in Nairobi County.

**Table 2.1 Summary of Literature Review and Gaps**

<b>Studies by</b>	<b>Focus</b>	<b>Findings</b>	<b>Knowledge gap</b>	<b>Gaps filled</b>
Omondi & Jagongo (2018)	Financial management skills, savings mobilization and role modeling.	The study concludes that financial management skills and role modeling influence financial management of SME.	The study does not focus on how micro credit terms, micro credit cost, collateral requirement in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate with financial performance.
Morobe, D,M (2015)	Credit accessibility, Managerial skills, Lending rates, Micro finance loans and collateral requirement.	The study concludes that high interest rates inhibit some SMES from accessing micro credit. Collateral requirement inhibits enterprises from accessing micro finance loans	The study did not look into micro credit terms component for micro credit access.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management skills in combination how it relates to financial performance.
Gichuki, Njeru, & Tirimbo	Micro credit cost, availability	The study concludes the respondents wanted	It does not focus on how micro credit terms, micro credit	Current study to focus on micro credit terms,

(2014)	of information and business risk.	to get their startup capital from individual investment funds, family members and relatives since security necessity and high reimbursement cost by micro-credit institutions.	cost, collateral requirement and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	micro credit cost, collateral requirement and financial management skills in combination how it relates to financial performance
Kinyua, J (2014)	Entrepreneurial development, Credit access (amount of loans accessed) and Savings and deposit.	The preacher asserts that availability of credit facilities influences performance of SMEs by and large	This study did not look into collateral requirement and micro credit terms components for micro credit access.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management skills and how they relate to financial performance.
Muiruri (2014)	Growth of small and medium enterprises and function of micro finance.	The study concludes that business which received micro credit detailed development in sales, income and workers output	The study does not focus on how micro credit terms, micro credit cost, collateral requirement and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate with financial execution.
Chen &Huang (2013)	Quality, size and performance of review firms.	The study maintains that quality review positively relates with financial performance.	The study does not focus on how micro credit terms, micro credit cost, collateral requirement and financial management skills in one combination affect how micro credit access in	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate

			MSMEs relate to financial performance.	with financial performance.
Wanambisi (2013)	Small enterprise performance and micro finance institutions lending.	The study concludes that Business improved in terms of sales and profit volume.	The study does not focus on how micro credit terms, micro credit cost, collateral requirement and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate with financial execution.
Githinji, Kiragu &Kiai (2019)	Agribusiness performance and collateral requirement	The study concludes that collateral play a significant role in financial performance.	The study does not focus on how micro credit terms, micro credit cost, and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate with financial execution.
Wachira, M, M (2012)	Level of funding, Microcredit terms, Microcredit skills, Group based lending, and Level of education.	The study concluded that micro credit terms influence financial performance of income generating activities. Training programs by micro lenders did not affect the performance of micro enterprises.	This study did not look into collateral requirement component for micro credit access	Current study to focus on micro credit terms, micro credit cost, collateral requirement and financial management abilities and how they associate with financial execution
Gavrea,Ilie s and Stegerean (2011)	Leadership performance, company size and purpose strategy.	The study concludes that management activities have huge effect on firm's performance	The study does not focus on how micro credit terms, micro credit cost, and financial management skills	Current study to focus on micro credit terms, micro credit cost, collateral requirement and

		segments.	in one combination affect how micro credit access in MSMEs relate to financial performance.	financial management abilities and how they associate with financial execution.
Kiende (2017)	Financial accessibility, level of education and Gender issues	The study concludes that high interest rates charged by micro credit lenders affect financial performance.	The study does not focus on how micro credit terms, collateral requirement and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and Financial management skills and the way they contribute to financial performance.
Koech (2011)	Financial factors and factors constraining growth.	The study concludes that there is a significant growth in businesses due to reinvestment of profits and loans contributed to business growth.	The study does not focus on how micro credit terms, micro credit cost, and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and Financial management skills and the way they contribute to financial performance.
Quaye (2011)	Utilization of SME for Business growth, credit access	The study concludes that high interest rates inhibit credit access and there is inability by businesses to provide collateral.	The study does not focus on how micro credit terms and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and Financial management skills and the way they contribute to financial performance.
Chang (2008)	Determinants of bank profit in	The study concludes that size ,credit risk and	The study does not focus on how micro credit terms, micro	Current study to focus on micro credit terms,

	developing economy and profitability of financial institution.	overhead expenses are negatively related to bank profitability.	credit cost, collateral requirement and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	micro credit cost, collateral requirement and Financial management skills and the way they contribute to financial performance.
Ledgerwood (1998)	Role of government and Donors in financial sector and policies affecting financial service provision.	The study concludes that collateral play significant role in credit provision in Kenya.	The study does not focus on how micro credit terms, micro credit cost and financial management skills in one combination affect how micro credit access in MSMEs relate to financial performance.	Current study to focus on micro credit terms, micro credit cost, collateral requirement and Financial management skills and the way they contribute to financial performance.

Source: Author (2019)

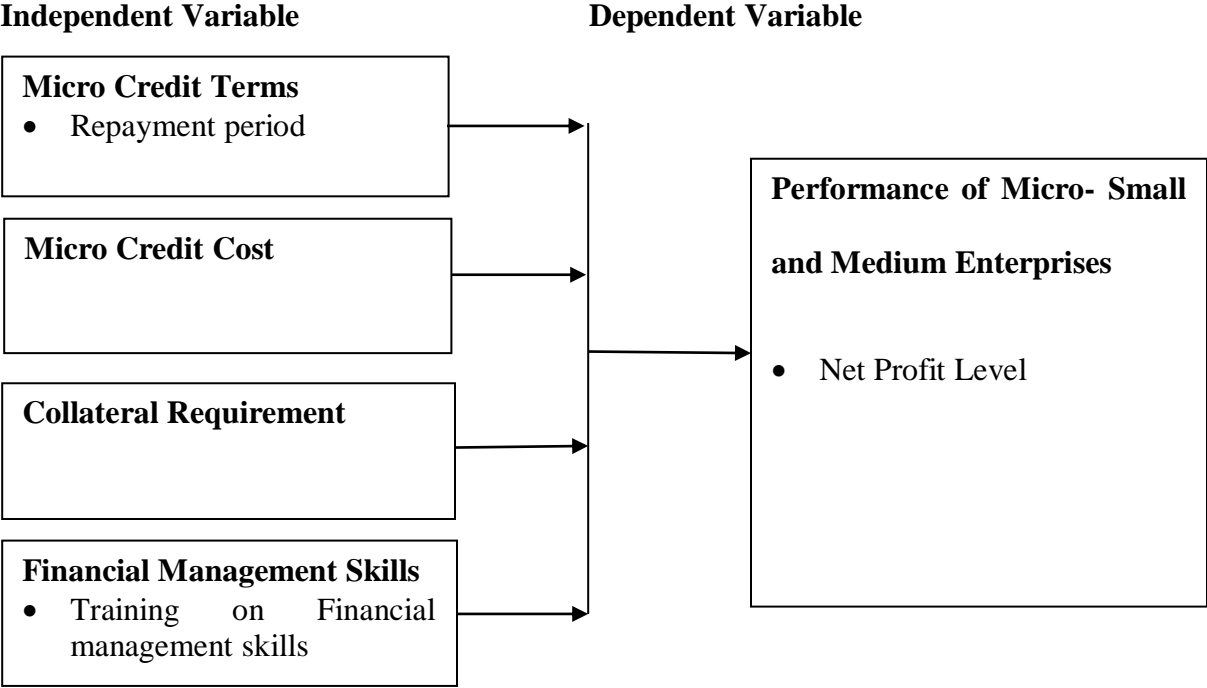
Research on micro credit access and financial performance in micro small and medium enterprises in Baringo central constituency, Baringo county has not been done before hence there was need to do this research project. Study finding will be useful in getting to know how credit access affects financial wellbeing of micro small and medium enterprises.

## 2.5 Conceptual Framework

The conceptual framework was derived from this study by defining the relationship between independent and dependent variables. From this study the independent variable is micro credit access. The elements of micro credit access which are believed to influence financial performance are: micro credit cost which constitute the interest rates charged on loan facilities, collateral requirement, financial management skills and micro credit terms.

The dependent variable is the type of variable which is dependent on independent variable.

In this study financial performance gives the level of net profit.



**Figure 2. 1: Conceptual Framework**

**Source Author (2019)**

The conceptual framework shows the independent variable (micro credit terms, micro credit cost, collateral requirements, and financial management skills training) influence the dependent variable, financial performance of MSMEs in Baringo central constituency, Baringo County.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter on methods of research comprises of research the study design, population targeted, designs in sampling and procedures, instruments in data collection, methods in data collection, and Techniques in data analysis, the study model, ethical consideration, Time schedules, Budget and also the procedures that was used in the study.

#### **3.1 Research Design**

According to Saunders, Lewis and Thornhill (2009), the term research design means a set procedure that has been tested for validity, reliability and objectivity that the researcher applies to find answers to objective research questions. Different philosophies on research have been earlier used depending on the nature of the study. These philosophies include quantitative and qualitative approaches. Descriptive research approach was used in this study which basically attempts to describe the situation, problem and phenomenon or provides information.

#### **3.2 Target Population**

The study was carried out on registered business operators in Baringo Central Constituency, Baringo County falling under MSMEs in the four administrative Divisions which are: Kabarnet, Sacho, Tenges and Salawa. According to Baringo county Government records the population of businesses falling under MSME category in the four divisions of Baringo Central Constituency is 900 which the study targeted.

**Table 3.1 Target Population**

<b>Strata</b>	<b>Population</b>
Kabarnet Division	500
Sacho Division	150
Salawa Division	50
Tenges Division	200
<b>Total</b>	<b>900</b>

**Source: County Government of Baringo (2017)**

### **3.3 Sampling Procedure**

According to Jumun, Agmhz and Auber (2003) Simple random sampling is the most basic form of probability sampling. In this sampling method, each unit of population has the same probability of being included in the sample. The researcher categorized each of the divisions of Baringo Central Constituency in Baringo County as a stratum and 90 respondents from among the registered MSMEs traders were selected from the four strata proportionately depending on the population of MSMEs in each of the divisions. The stratified sampling approach was then used to pick the final sample for reliable reliability and to meet the study objectives. This enabled the researcher to target people who were well placed to answer the questions. According to Mugenda and Mugenda (2003) a sample size of between 10 percent to 20 percent of population is most appropriate. The researcher obtained data from 90 respondents from the four divisions. The sample size of each stratum is shown in the table below.

The list of registered MSMEs who have been doing business in Baringo Central constituency was obtained from County Government of Baringo and it acted as a sampling frame. Out of target population of 900 registered MSMEs in Baringo Central constituency, a total of 90 MSMEs were sampled for this study. The respondents are sampled registered traders with County Government of Baringo who are in MSMEs category.

**Table 3. 2 Sample Size**

<b>Strata</b>	<b>Population</b>	<b>Sample Size</b>
Kabarnet Division	500	50
Sacho Division	150	15
Salawa Division	50	5
Tenges Division	200	20
<b>Total</b>	<b>900</b>	<b>90</b>

**Source: Researcher (2017)**

### **3.4 Data Collection Instruments and Procedures**

The instruments the researcher used to attain the objectives of the study was questionnaires. According to Kombo (2006), a questionnaire is a tool used in research for data collection and data can be collected over a large sample. Mugenda (2008) on the other hand described several features which makes questionnaire more appropriate instrument for data collection; it helps the researcher to collect information from various places, emotions and undue influence does not affect data collection, it ensures confidentiality and it is also economical and saves time. The researcher used a structured questionnaire to collect data.

### **3.5 Data Collection Procedure**

The respondents were given the questionnaires through hand delivery system by the researcher taking into consideration their willingness to participate in the study. The respondents also had a chance to provide recommendations pertaining to this study. Primary sources of information were utilized to collect information for this study. Respondents were given time to read through the questions and respond accordingly. The researcher then collected the filled questionnaires from the respondents after two weeks.

### **3.6 Research Instruments Validity and Reliability**

#### **3.6.1 Piloting Study**

To establish validity and reliability of research information the researcher did the pre-testing through piloting of the research instruments in Kabartonjo town in Baringo North constituency. The questionnaires were distributed randomly to 9 respondents were ready to take part in the pilot study. The feedback data from the pilot study enabled the researcher to modify the questionnaire accordingly to give valid and reliable information.

#### **3.6.2 Validity of Research Instruments**

Mugenda and Mugenda (2003) define the validity as the tendency of information to be accurate and meaningful as per research objective. Data validity was achieved through validation of data which then ensures that the data complies with the requirements of quality benchmarks. This quality bench marks comprised:

Validity of the content shows the level to which commodities sufficiently measure or perfectly represent the content of the feature the researcher would wish measure, Content validity which shows the degree to which items satisfactorily measure or speak to the

content of the property the researcher wishes to quantify, Develop legitimacy which demonstrates the degree to which an estimation strategy precisely represents to a build, for example, an individual's attitude and standard related validity which shows the degree to which the instrument's scores correlate with an outer rule eg another estimation from an alternate instrument.

The researcher designed and formulated the questionnaire under the guidance of the supervisor to ensure that the data to be collected through it would be valid and reflect the research objectives.

### 3.6.3 Reliability of Research Instruments

According to Kothari (1992) for research tools to be reliable the test item should be able to yield consistent results when the same individuals are measured several times under the same condition. According to Chelsea (2015), Cronbach's alpha is used to assess reliability or internal consistency of scale or test items. Cronbach alpha was used to measure reliability of data in this study.

**Table 3.3 Reliability Test Results**

	<b>Item</b>	<b>Cronbach Alpha</b>
<b>Valid N</b>	Micro credit terms	0.8762
<b>5</b>	Micro credit costs	0.7821
<b>5</b>	Collateral requirements	0.7667
<b>5</b>	Financial management skills training	0.8023

The reliability test on the pilot data showed that the micro credit terms items had a Cronbach Alpha score of 0.8762. Micro credit cost items had a Cronbach Alpha of 0.7821,

collateral requirements (0.7667) and financial management skills training (0.8023). This means that the data was reliable given that the Cronbach Alpha scores were  $> 0.7$ .

### **3.7 Data Analysis Techniques**

The findings of this research were categorized according to research questions. The data obtained was then checked to ensure information is complete during the close of each day while collecting data. The data obtained from the questionnaire was given codes then analysis was done using the Statistical Package for Social Sciences (SPSS). To enable meaningful and easy interpretation the data was coded hence reduction in its quantity. Data was then analyzed by descriptive method and presentation was done in form of means, standard deviations, and percentages.

#### **3.7.1 Study Model**

The researcher used a regression model to investigate the relationship between the independent and dependent variables. The regression model in this study consisted of four independent variables and one dependent variable as shown below (Williams, 1975).

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

$Y$  = Financial performance determined by profitability of the MSMEs.

$X_1$  = Micro credit terms measured by terms and conditions from lenders.

$X_2$  = Micro credit cost measured by interest rates and loan handling charges.

$X_3$  = Collateral requirement determined by level of security required.

$X_4$  = Financial management skills measured by presence of trained MSMEs.

$\beta_1 \beta_2 \beta_3 \beta_4$  are the coefficients of the variation to determine the variability of each variable to financial performance in the regression model.

$\beta_0$  = regression constant

$\varepsilon$  = Error term normally distributed about the mean of zero.

### **3.8 Ethical Considerations**

The relevant authorities were requested for approval to undertake this study. Also, ethical formalities were taken into consideration and respondents were not required to write their names in the questionnaire. Instead numbers were used to represent the respondents in order to maintain confidentiality. Participation by respondents was voluntary and the data provided was kept confidential and utilized in the study only.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.0 Introduction**

This chapter contains the analysis of the data collected from the study. It contains the information on Micro credit terms, Micro credit cost, Collateral requirements, and Financial management skills by MSMEs.

#### **4.1 Response Rate**

The researcher sent 90 questionnaires in total to the owners of MSMEs in Baringo Central Constituency of Baringo County, Kenya. Out of the 90 instruments issued, 67 were returned duly completed representing a response rate of 74.4 percent. All the 67 duly returned questionnaires were found to have been correctly filled. This was a high reaction rate and was regarded useful for the reasons for analysis. This high response rate was accomplished by the strategy for instrument administration which was for this situation researcher administered.

#### **4.2 Respondents Characteristics**

The study aimed at knowing the response characteristics of the participants in terms of gender.

##### **4.2.1 Gender of the Respondents**

The respondents gender was classified into male and female.

**Table 4. 1 Gender of the respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	29	43.3
Female	38	56.7
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.1 on gender analysis of the respondents showed that 29 (43.3 percent) were found to be male respondents and 38 (56.7 percent) of the respondents were female. This showed that there was gender parity on owners of MSMEs in Baringo Central Constituency where there was more female than male owners. This can be attributed by the fact that female can access micro credit access easily than male entrepreneurs because of availability women groups who can borrow loans.

#### **4.2.2 Age of the Respondents**

The age of the respondents ranged between from 18 to over 50 years.

**Table 4.2 Age of the Respondents**

<b>Age category</b>	<b>Frequency</b>	<b>Percent</b>
18 – 30 years	30	44.8
31 – 40 years	17	25.4
41 – 50 years	12	17.9
Over 50 years	8	11.9
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.2 on respondents' ages show that those aged between 18 – 30 years were 30 (44.8 percent), 31 – 40 years were 17 (25.4 percent), 41 – 50 years 12 (17.9 percent), and over 50 years 8 (11.9 percent). Thus, there was fair distribution of the respondents among the different age sets, so that the overall results would show a balanced

view of the factors involved. Further, the study findings imply that the owners of MSMEs in Baringo Central Constituency range from 18 years to over 50 years. Therefore, the study got information's from all age categories target on their experience of accessing micro credit access and their financial performance.

#### 4.2.3 Education Level of the Respondents

The study tried to find out the respondents' level of education ranging from primary to post secondary.

**Table 4.3 Education Level of the Respondents**

<b>Education Level</b>	<b>Frequency</b>	<b>Percent</b>
Primary	10	14.9
Secondary	26	38.8
Post-Secondary	31	46.3
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.3 on education level shows that 10(14.9 percent) of respondents indicated they have attained primary level of education, 26(38.8 percent) secondary and 31(46.3 percent) post-secondary. This suggests that the majority had a strong level of education and awareness and were therefore in a position to understand the research questions concerning micro-credit access and financial output of micro-small and medium-sized enterprises in Baringo County , Kenya and to attend to them without difficulty.. Their majority with good level of education enabled them to have good financial management skills which enabled them to manage their financially well.

#### 4.2.4 Employment Status of the Respondents

The sought to know the employment status of the respondents as classified as self-employed and formal and self-employed.

**Table 4.4 Employment status of the respondents**

<b>Employment Type</b>	<b>Frequency</b>	<b>Percent</b>
Self-employed	48	71.6
Formal employment	9	13.4
Unemployed	10	14.9
<b>Total</b>	<b>67</b>	<b>100.0</b>

The results in Table 4.4 on employment status indicate that 48 (71.6 percent) of respondents were self-employed, 9 (13.4) were under formal employment and 10 (14.9 percent) of respondents were unemployed. Thus, majority were self-employed. This means that the respondents had experience regarding micro credit access and financial performance of micro small and medium enterprises in Baringo Central Constituency, Baringo County. This means that the majority who are self-employed devoted all their time and energies in managing business. For their MSMEs to thrive well, the businessmen have information on how to access micro credit and how it contributes to financial performance.

#### 4.2.5 Marital Status

The researcher sought to determine the marital status of the respondents as single , married or separated.

**Table 4.5 Marital Status**

<b>Marital Status</b>	<b>Frequency</b>	<b>Percent</b>
Single	23	34.3
Married	40	59.7
Separated	4	6
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.5 on marital status showed that 23(34.3 percent) being single, 40(59.7 percent) married and 4(6.0 percent) had separated. Thus, the majority of the respondents, being married, had sufficient responsibilities hence their need to have to access micro credit to operate a MSMEs to generate income to support the family hence have to be keen on factors influencing small and micro enterprise credit access and its financial performance in Baringo County, Kenya.

### **4.3 Respondents' Business Characteristics**

The researcher sought to find out among the respondents the different categories of businesses they fall under by looking into their sizes of business.

#### **4.3.1 Type of Business Run by the Respondents**

The study also sought to find the type of business run by respondents in terms of micro, small and medium enterprises.

**Table 4.6 Type of Business Run by the Respondents**

<b>Type of Business</b>	<b>Frequency</b>	<b>Percent</b>
Micro	14	20.9
Small	39	58.2
Medium	14	20.9
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.6 on type of business indicate that 14(20.9 percent) of the respondents were running micro business, 39(58.2 percent) had small businesses and 14(20.9 percent) were running medium businesses. The results agree with those of Kessy, *et. al.*, (2006), who found that MSEs operations involve economic activities through which production, distribution of goods and services are undertaken in the informal sector.

### 4.3.2 Industry Sector in Which the Business Operates

The researcher sought to find out the different types of industry sectors the respondents operate in terms of Hospitality services, retail, cosmetic and beauty, building and construction, agriculture, transport and production.

**Table 4.7 Industry Sector In Which The Business Operates**

<b>Industry Sector</b>	<b>Frequency</b>	<b>Percent</b>
Hospitality	3	4.5
Services	14	20.9
Retail	33	49.3
Cosmetics and Beauty	5	7.5
Building & Construction	5	7.5
Agriculture	1	1.5
Transport	4	6
Production	2	3
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.7 on the respondent's industry sector show that hospitality sector had 39(4.5 percent) of the respondents operating on it, services had 14(20.9 percent), Retail had 33(49.3 percent) of the respondents operating on that sector, cosmetic and beauty and building and construction each had 5(7.5 percent), agriculture had 1(1.5 percent), transport 4(6.0 percent) and production had 2(3.0 percent) operating on respective sectors. The

results are in agreement with those of Kessy, et. al., (2006) who found that MSEs can be defined as an economic activity through which production, distribution of goods and services is undertaken in the informal sector.

### 4.3.3 Number Of Employees In The Business

The researcher sought to find out from the respondents the number of employees employed in the various scales ranging from 1 to over 10 employees.

**Table 4.8 Number Of Employees In The Business**

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percent</b>
1 – 5 employees	41	61.2
6 – 10 employees	15	22.4
Over 10 employees	11	16.4
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.8 on number of employees in the business show that 41(61.2 percent) of the businesses had 1-5 employees, 15(22.4 percent) had 6-10 employees and 11(16.4 percent) had over 10 employees. This implies that most of the business had over 10 employees. The results are in agreement with those of David (2012), who found that business men use credit to expand their business through increase in the number of employees. They also agree with those of Muiruri (2014) who found that micro credit institutions offer services to customers who are majorly micro small enterprises and had contributed to growth which has been rapid over the years. The enterprises that received micro credit services reported growth in turnover, revenue and number of employees.

#### **4.3.4 Period The Business Has Been Operational**

The researcher intended to find out from the respondents the period in which the enterprise has been operational using various scales ranging from less than 6 years to over 15 years.

**Table 4.9 Period The Business Has Been Operational**

<b>Period the Business</b>	<b>Frequency</b>	<b>Percent</b>
Below 6 years	28	41.8
6 – 10 years	21	31.3
11 – 15 years	9	13.4
Over 15 years	9	13.4
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.9 on period that the business has been operational indicate that 28 (41.8 percent) of the business were in operation below 6 years, 21(31.3 percent) had been in operation for 6-10 years followed by 9(13.4 percent) with 11-15 years and 9(13.4 percent) were in operation for over 15 years, this shows that most of the businesses were in operation for a long time. Thus, the respondents had sufficient experience to provide information on the factors influencing micro credit access and financial performance of micro small and medium enterprises in Baringo Central constituency, Baringo County.

#### **4.3.5 Previous Loan From A Microfinance Institution**

The researcher sought to get information from the respondents on whether they have borrowed any loan from micro finance institution before and the respondents were to answer Yes or No.

**Table 4.10 Previous Loan From A Microfinance Institution**

<b>Previous Loan</b>	<b>Frequency</b>	<b>Percent</b>
Yes	51	76.1
No	16	23.9
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.10 on previous loan taken by the respondent show that 51(76.1 percent) of the respondents borrowed loans from microfinance institutions before while 16(23.9 percent) of the respondents didn't borrow the loan. Thus, the respondents had sufficient experience to provide information on the factors influencing micro credit access and financial performance of micro small and medium enterprises in Baringo Central Constituency, Baringo County, Kenya. The results are in agreement with those of Gichuki, et. al., (2014) who found that in Africa micro enterprises have limited access to micro credit which affects their development and expansion.

#### **4.3.6 Respondents' Other Sources Of Micro Credit**

The researcher intended to get information from the respondents on other sources of micro credit which were listed as employer, friends and relatives, sacco, banks, group contributions, employer and group contributions and friends and group contributions.

**Table 4. 11 Respondents' Other Sources Of Micro Credit**

	<b>Frequency</b>	<b>Percent</b>
Employer	3	4.5
Friends and relatives	11	16.4
Saccos	16	23.9
Banks	20	29.9
Group contributions	12	17.9
Employer and group contributions	1	1.5
Friends and group contributions	4	6
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.11 on respondents' other sources of micro credit shows that 3(4.5 percent) of the respondents gets other sources of micro credit from employer, 11(16.4 percent) from friends and relatives, 16(23.9 percent) from saccos, 20(29.9 percent) from banks, 12(17.9 percent) from group contributions, 1(1.5 percent) from employer and group contribution and 4(6.0 percent) from friend and group contributions.

The results are in agreement with those of Gichuki, *et. al.*, (2014) who found that in Africa micro enterprises main sources of capital comprise of ploughed back profits and savings and credit facility from groups which are mostly unsecured and do not share risk because of their sectorial focus.

#### **4.3.7 Extent To Which Micro Credit Loan Affects Financial Performance**

The researcher tried to find out the extent to which micro credit loan affect the respondent's financial performance and was to rank the effect as per the following levels; very great extent, great extent, medium extent and small extent.

**Table 4.12 Extent To Which Micro Credit Loan Affects Financial Performance**

<b>Scale</b>	<b>Frequency</b>	<b>Percent</b>
Very great extent	16	23.9
Great extent	19	28.4
Medium extent	26	38.8
Small extent	6	9
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.12 on extent to which micro credit loan affects respondent's financial performance show that 16 (23.9 percent) of the respondents were affected to a very great extent, 19 (28.4 percent) being affected to a great extent, 26 (38.8 percent) to a

medium extent and 6 (9.0 percent) being affected to a small extent. Thus, the respondents had sufficient experience to provide information on the factors influencing small and medium enterprise micro credit access and financial in Baringo County, Kenya. The results are in agreement with those of Gangata et.al. (2013) whereby the researcher observed that micro enterprises do not access loans in Zimbabwe due to restrictions by the banks the main one being loan security.

#### **4.4 Terms in Micro Credit**

The researcher sought to find from the respondents on the terms at which micro credit lenders have set for borrowers to meet before they can be given a micro credit facility.

##### **4.4.1 When Respondent Normally Repays The Loan**

The researcher sought to get information from the respondents concerning the period at which the borrowers are supposed to repay back the loan as per given parameters ranging from every week to Every month.

**Table 4.13 Normal Repayment Period**

<b>Normal Repayment Period</b>	<b>Frequency</b>	<b>Percent</b>
Every week	1	1.5
After every two weeks	6	9
Every month	60	89.6
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.13 on normal repayment period show that 1(1.5 percent) of the respondents pays the loan after every week, 6(9.0 percent) pays after every two weeks and 60(89.6 percent) of the respondents pays after every month. Thus, the respondents had sufficient interaction with micro finance loan repayment terms to provide information on

the factors influencing SMEs micro credit access and financial performance in Baringo County, Kenya.

#### 4.4.2 Period taken to Repay Loan

The researcher sought to find from the respondent's information concerning period at which it takes to repay back the loan with various periods given ranging from 6 months to a maximum of 1 year.

**Table 4.14 Period taken to repay loan**

<b>Period taken to repay loan</b>	<b>Frequency</b>	<b>Percent</b>
6 months	1	1.5
8 months	1	1.5
18 months	1	1.5
1 year	32	47.8
2 years	16	23.9
3 years	9	13.4
4 years	3	4.5
5 years	2	3
6 years	2	3
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.14 on period taken to repay loan indicate that 1 (1.5 percent) of the respondents said micro credit loan takes 6 months, 8 months and 18 months, respectively. Majority 32(47.8 percent) of the respondents said the loan takes 1 year, 16 (23.9 percent) said it takes 2 years, 9(13.4 percent) said it takes 3 years with 3 (4.5 percent) saying it takes 4 years. Two (3.0 percent) said it takes 5 and 6 years, respectively. This implies that most of the loans are paid within a short time period. The results disagree with those of Kimaru

(2014) on his study he found out that there is a positive relationship between higher repayment period and higher profits.

#### 4.4.3 Responses On Micro Credit Terms

The researcher sought to find from the respondents' responses on the effect of micro credit terms on micro credit access in terms of business growth, profitability, business assets and working capital.

**Table 4.15 Responses on Micro credit terms**

<b>Statement</b>	<b>Strongly agreed</b>	<b>Agreed</b>	<b>Neutral</b>	<b>Disagreed</b>	<b>Strongly disagreed</b>	<b>Mean</b>	<b>SD</b>
Loan repayment period affect sales growth of my Business.	9(13.4 percent)	16(23.9 percent)	34(50.7 percent)	7(10.4 percent)	1(1.5 percent)	2.63	.902
Loan repayment period affect profitability of my business	14(20.9 percent)	26(38.8 percent)	19(28.4 percent)	7(10.4 percent)	1(1.5 percent)	2.33	.975
Loan repayment period affect growth in number of branches of my business	8(11.9 percent)	19(28.4 percent)	27(40.3 percent)	10(14.9 percent)	3(4.5 percent)	2.72	1.012
Loan repayment period affects the working capital of my business	15(22.4 percent)	15(22.4 percent)	20(29.9 percent)	13(19.4 percent)	4(6.0 percent)	2.64	1.202
Loan repayment period affects the assets of my business	5(7.5 percent)	23(34.3 percent)	20(29.9 percent)	14(20.9 percent)	5(7.5 percent)	3.13	1.072

The results in Table 4.15 on micro credit terms show that loan repayment period affects sales growth of my business had 9(13.4 percent) of the respondents strongly agreeing, 16(23.9 percent) agreeing, 34(50.7 percent) being neutral, 7(10.4 percent) disagreeing, 1(1.5 percent) strongly disagreeing, (mean 2.63, SD=.902). Loan repayment period affect profitability of the business had 14(20.9 percent) strongly agreeing, 26(38.8 percent) agreeing, 19(28.4 percent) being neutral, 7(10.4 percent) disagreeing and 1(1.5 percent) of the respondents disagreeing, (mean 2.33, SD=.975). Loan repayment period affect growth in number of branches of my business had 8(11.9 percent) strongly agreeing, 19(28.4 percent) agreeing, 27(40.3 percent) being neutral, 10(14.9 percent) disagreeing and 3(4.5 percent) strongly disagreeing (mean 2.72, SD=1.012). Loan repayment period affects the assets of my business had 5(7.5 percent) of the respondents strongly agreeing, 23(34.3 percent) agreeing, 20(29.9 percent) being neutral, 14(20.9 percent) disagreeing, and 5(7.5 percent) strongly disagreeing (mean 3.13, SD = 1.072). The results agree with those of Rose (2012) who found that access of micro credit significantly led to increase in sales level. In her study, majority of the respondents said their businesses improved in terms of sales volume as a result of using micro credit.

#### **4.5 Micro Credit Cost**

This comprises the cost incurred when one acquires a micro credit facility which includes interest rates and administration costs.

##### **4.5.1 Awareness Of Interest Rate Amount Charged On Their Loan**

The researcher sought to find from the respondent's information on their awareness on the interest rates charged on their loan.

**Table 4.16 Awareness Of Interest Rate Amount Charged On Loan**

<b>Awareness of Interest Rate</b>	<b>Frequency</b>	<b>Percent</b>
Yes	65	97
No	2	3
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.16 on awareness of interest rate amount charged on loan shows that 65 (97 percent) of the respondents were aware of interest rate charged on their loan while 2 (3.0 percent) were not aware of interest rate charged on their loan. The results agree with those of Karumba & Wafula (2012) who found that borrowers are able to obtain information regarding the interest rate amount charged by different lenders and make the necessary comparison.

#### **4.5.2 Responses On Micro Credit Cost Terms Affecting The Business.**

The researcher intended to find from the respondent's information of micro credit cost on micro credit access in terms of business sales growth, assets, profitability and working capital.

**Table 4.17 Responses On Micro Credit Cost Terms Affecting The Business**

<b>Statement</b>	<b>Strongly agreed</b>	<b>Agreed</b>	<b>Neutral</b>	<b>Disagreed</b>	<b>Strongly disagreed</b>	<b>Mean</b>	<b>SD</b>
Rates of interest influence the growth in sales of the business	14(20.9 percent)	26(38.8 percent)	22(32.8 percent)	4(6.0 percent)	1(1.5 percent)	2.28	.918
Rates of interest influence profitability of the business	15(22.4 percent)	18(26.9 percent)	28(41.8 percent)	1(1.5 percent)	5(7.5 percent)	2.45	1.091
Rates of interest influence growth in branches of business	15(22.4 percent)	12(17.9 percent)	28(41.8 percent)	9(13.4 percent)	3(4.5 percent)	2.60	1.115
Rates of interest influence growth in working capital of the business	15(22.4 percent)	15(22.4 percent)	20(29.9 percent)	13(19.4 percent)	4(6.0 percent)	2.64	1.202
Rates of interest influence growth in assets of business	17(25.4 percent)	29(43.3 percent)	1(1.5 percent)	8(11.9 percent)	12(17.9 percent)	3.46	1.449
<b>Overall mean</b>						<b>2.69</b>	<b>1.16</b>

The results in Table 4.17 on micro credit costs affecting the business performance show that the overall mean for the responses was 2.69 (= agreed) and standard deviation 1.16. Rates of interest influence the growth in sales of the business had 14(20.9 percent) strongly agreeing, 26(38.8 percent) agreeing, 22(32.8 percent) being neutral, 4(6.0 percent) disagreeing, 1(1.5 percent) strongly disagreeing. Rates of Interest influence profitability of the business had 15(22.4 percent) strongly agreeing, 18(26.9 percent) agreeing, 28(41.8

percent) being neutral, 1(1.5 percent) disagreeing, 5(7.5 percent) strongly disagreeing. Rates of interest influence growth in branches of business had 15(22.4 percent) strongly agreeing, 12(17.9 percent) agreeing, 28(41.8 percent) being neutral, 9(13.4 percent) disagreeing and 3(4.5 percent) disagreeing.

Rates of interest influence growth in working capital of business had 15(22.4 percent) strongly agreeing, 15(22.4 percent) agreeing, 20(29.9 percent) being neutral, 13(19.4 percent) disagreeing, 4(6.0 percent) strongly disagreeing. Rates of Interest influence growth in assets of business had 17(25.4 percent) of the respondents strongly agreeing, 29(43.3 percent) agreeing, 1(1.5 percent) being neutral, 8(11.9 percent) disagreeing, and 12(17.9 percent) strongly disagreeing. The results agree with those of Quaye, (2011), who found that Micro Small and Medium Enterprises normally have low opportunities to access credit facilities and other financial support services as the banks find it costly when dealing with small firms since it is cumbersome to recoup on the costs incurred on them and also there are the some risks attached to giving out loans to MSMEs that discourage banks from doing business with them. The results also agree with those of Gichuki, *et. al.* (2014) who found that in Africa micro enterprises have limited access to micro credit, hence affects their development and expansion.

#### **4.6 Collateral Requirement**

This is the security required by micro credit institutions to be furnished by the borrower and it is retained by the financial institutions till the loan is fully repaid.

#### 4.6.1 Whether Financial Institutions Ask For Loan Security

The researcher sought to find information from the respondents if financial institutions if they ask for loan security before advancing micro credit facility.

**Table 4.18 Whether Financial Institutions Ask For Loan Security**

<b>Loan Security</b>	<b>Frequency</b>	<b>Percent</b>
Yes	60	89.5
No	7	10.5
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.18 on whether financial institutions ask for loan security before advancing any micro credit indicate that 60 (89.5 percent) of the respondents were aware that the financial institutions ask for loan security while 7 (10.5 percent) of the respondents were not aware. This means that the majority of the respondents were aware of the financial institutions' requirements on loan security. These are respondents who have applied for loans before while those who were not aware are likely not to have taken loans from the micro finance institutions before.

#### 4.6.2 Responses On Collateral Requirement Affecting The Business

The researcher sought to find from the respondents the effect of collateral requirement on financial performance in terms of sales growth, profitability, branch growth, working capital and assets.

**Table 4. 19 Responses On Collateral Requirement Affecting The Business**

<b>Statement</b>	<b>Strongly agreed</b>	<b>Agreed</b>	<b>Neutral</b>	<b>Disagreed</b>	<b>Strongly disagreed</b>	<b>Mean</b>	<b>SD</b>
Loan security required by micro credit institutions affects the growth in sales of my business	12(17.9 percent)	18(26.9 percent)	20(29.9 percent)	14(20.9 percent)	3(4.5 percent)	2.67	1.133
Loan security required by micro credit institutions affects profitability of my business	13(19.4 percent)	20(29.9 percent)	22(32.8 percent)	10(14.9 percent)	2(3.0 percent)	2.52	1.064
Loan security required by micro credit institutions affects the growth in branches of my business	9(13.4 percent)	17(25.4 percent)	22(32.8 percent)	14(20.9 percent)	5(7.5 percent)	2.84	1.136
Loan security required by micro credit institutions affects the working capital of my business	13(19.4 percent)	19(28.4 percent)	19(28.4 percent)	13(19.4 percent)	3(4.5 percent)	3.01	1.321
Loan security required by micro credit institutions affects the assets of my business	11(16.4 percent)	23(34.3 percent)	19(28.4 percent)	8(11.9 percent)	6(9.0 percent)	3.37	1.166
<b>Overall mean</b>						<b>2.88</b>	<b>1.16</b>

The results in Table 4.19 on collateral requirement affecting business performance show that the results had a mean of 2.88 (= agreed) and standard deviation 1.16. Loan security required by micro credit institutions affects the growth in sales of my business had

12(17.9%) of the respondents strongly agreeing, 18(26.9 percent) agreeing, 20(29.9 percent) being neutral, 14(20.9 percent) disagreeing, 3(4.5 percent) strongly disagreeing.

Other results this study in Table 4.19 were loan security required by micro credit institutions affects profitability of my business had 13(19.4 percent) strongly agreeing, 20(29.9 percent) agreeing, 22(32.8 percent) being neutral, 10(14.9 percent) disagreeing and 2(3.0 percent) strongly disagreeing. Loan security required by micro credit institutions affects the growth in branches of my business had 9(13.4 percent) strongly agreeing, 17(25.4 percent) agreeing, 22(32.8 percent) being neutral, 14(20.9 percent) disagreeing, 5(7.5 percent) strongly disagreeing.

Loan security required by micro credit institutions affects the working capital of my business had 13(19.4 percent) of the respondents strongly agreeing, 19(28.4 percent) agreeing, 19(28.4 percent) being neutral, 13(19.4 percent) disagreeing, and 3(4.5 percent) strongly disagreeing. Loan security required by micro credit institutions affects the assets of my business had 11(16.4 percent) of the respondents strongly agreeing, 23(34.3 percent) agreeing, 19(28.4 percent) being neutral, 8(11.9 percent) disagreeing, and 6(9.0 percent) strongly disagreeing. The results are in agreement with those of Fatoki et. al. (2010) who found that loan security was one of the factors limiting access to credit in South Africa. They also agree with those of Quaye, (2011), who found that Micro Small and Medium Enterprises normally have low opportunities to access credit facilities and other financial support services provided by micro lenders as the MSMEs cannot provide the mandatory loan security required by financial institutions.

#### **4.7 Training on Financial Management Skills**

This involves giving the business people knowledge and skills on financial management which contributes to proper handling finances by those running business.

##### **4.7.1 Whether Respondent Has Ever Been Trained On Finance Matters**

The researcher sought to find out from the respondents if they have been trained on financial management skills.

**Table 4.20 Whether Respondent Has Ever Been Trained On Finance Matters**

<b>Training</b>	<b>Frequency</b>	<b>Percent</b>
Yes	38	56.7
No	29	43.3
<b>Total</b>	<b>67</b>	<b>100</b>

The results in Table 4.20 on whether the respondents have been trained on process of handling finances in business, indicates that 38 (56.7 percent) of the respondents been trained on process of handling finances on business while 29 (43.3 percent) have never been trained on the same. Thus, majority had enough knowledge on financial management skills. The results agree with those of Ledgerwood (1998) who found that many entrepreneurs need skills training to make their business succeed. The results also agree with those of Komen (2014) found out that 49 percent of SMES had not received any formal training in business. His findings indicated that the main challenges affecting SMES were access to micro finance business training and skills.

##### **4.7.2 Whether Professionals Have Been Hired To Handle Financial Matters.**

The researcher sought to find from the respondents whether they have hired professionals on financial matters to assist them on financial management.

**Table 4. 21 Whether Professionals Have Been Hired To Handle Financial Matters**

<b>Hiring professionals</b>	<b>Frequency</b>	<b>Percent</b>
Yes	2	6.9
No	27	93.1
<b>Total</b>	<b>29</b>	<b>100</b>

The results in Table 4.21 indicate that 2(6.9 percent) of those who answered in the negative have hired a professional to handle financial matters while 27(93.1 percent) had not hired professionals to handle their financial matters. This means that those particular respondents were at risk of not being able to record their financial transactions effectively. The results are in agreement with those of Thalassinos, *et. al.* (2010) who found that many SMEs do not keep accounting records on their operations, and thus, in the absence of proper accounting records and information. Due to this problem, most SMEs tend to collapse a few years after they have been established.

#### **4.7.3 Responses On Training In Financial Management Skills**

The researcher enquired from the respondents how they rate training on financial management skills affect financial performance in terms of business profitability, business sales growth, business financial performance and growth of business branches.

**Table 4.22 Responses On Training In Financial Management Skills**

<b>Statement</b>	<b>Strongly agreed</b>	<b>Agreed</b>	<b>Neutral</b>	<b>Disagree d</b>	<b>Strongly disagreed</b>	<b>Mea n</b>	<b>SD</b>
Training on financial management affect profitability of my business	18(26.9 percent)	15(22.4 percent)	15(22.4 percent)	14(20.9 percent)	5(7.5 percent)	2.60	1.292
Training on financial management skills affect growth of sales of my business	17(25.4 percent)	11(16.4 percent)	21(31.3 percent)	17(25.4 percent)	1(1.5 percent)	2.61	1.167
Your training contributed to your business financial performance	27(40.3 percent)	15(22.4 percent)	13(19.4 percent)	9(13.4 percent)	3(4.5 percent)	2.19	1.223
Training on financial management skills affect growth of branches of my business	14(20.9 percent)	10(14.9 percent)	19(29.9 percent)	14(20.9 percent)	10(13.4 percent)	2.91	1.323
Training on financial management skills affect growth of assets of my business	17(25.4 percent)	24(35.8 percent)	15(22.4 percent)	0(0 percent)	11(16.4 percent)	3.54	1.329
<b>Overall mean</b>						<b>2.77</b>	<b>1.27</b>

The results in Table 4.22 show the overall mean for responses on training in financial management skills was 2.77 disagreed with standard deviation 1.27. Training on financial management affects profitability of my business had 18 (26.9 percent) of the respondents strongly agreeing, 15 (22.4 percent) agreeing, 15 (22.4 percent) being neutral, 14 (20.9 percent) disagreeing, 5 (7.5 percent) strongly disagreeing.

Training on financial management skills affect growth of sales of my business had 17 (25.4 percent) strongly agreeing, 11 (16.4 percent) agreeing, 21 (31.3 percent) being neutral, 17 (25.4 percent) disagreeing and 1 (1.5 percent) strongly disagreeing. Your training contributed to your business financial performance had 27 (40.3 percent) strongly agreeing, 15 (22.4 percent) agreeing, 13 (19.4 percent) being neutral, 9 (13.4 percent) disagreeing, 3 (4.5 percent) strongly disagreeing. Training on financial management skills affect growth of branches of my business had 14 (20.9 percent) strongly agreeing, 10 (14.9 percent) agreeing, 19 (29.9 percent) being neutral, 14 (20.9 percent) disagreeing, 10 (13.4 percent) strongly disagreeing. Training on financial management skills affect growth of assets of my business had 5 (7.5 percent) of the respondents strongly agreeing, 23 (34.3 percent) disagreeing, 20 (29.9 percent) being neutral, 14 (20.9 percent) disagreeing, and 5 (7.5 percent) strongly disagreeing. The results are in agreement with those of Omri *et. al.* (2012), who found that financial management skills are important in ensuring balance and the optimization of resources for the growth of a micro and small enterprise. They also agree with those of Nguyen (2001) who found that the practices which are increasingly identified with the profitability and performance of SMEs in Vietnam are the practices identified with the 'bookkeeping data frameworks, financial planning, working capital administration, fixed-resource management and financial revealing and analysis. These practices require preparing on money related administration skills.

#### 4.8 Responses On Business Performance

The researcher inquired about how they rate business performance in terms of how access to micro credit has on increase in business monthly profit, business assets, monthly sales and the number of employees in the business.

**Table 4.23 Responses On Business Performance**

<b>Statement</b>	<b>Strongly agreed</b>	<b>Agreed</b>	<b>Neutral</b>	<b>Disagreed</b>	<b>Strongly disagreed</b>	<b>Mean</b>	<b>SD</b>
Access to microcredit has increased the monthly profit of my business	6(9.0 percent)	21(23.9 percent)	25(37.3 percent)	12(17.9 percent)	3(4.5 percent)	3.22	.997
Access to microcredit has increased the assets of my business	5(7.5 percent)	13(19.4 percent)	17(25.4 percent)	27(40.3 percent)	5(7.5 percent)	2.79	1.080
Access to microcredit has increased the monthly sales of my business	9(13.4 percent)	2(3.0 percent)	8(11.9 percent)	24(35.8 percent)	24(35.8 percent)	2.22	1.335
Access to microcredit has increased the number of employees in my business	7(10.4 percent)	20(29.9 percent)	24(35.8 percent)	6(9.0 percent)	10(14.9 percent)	3.12	1.187
<b>Overall mean</b>						<b>2.84</b>	<b>1.15</b>

The results in Table 4.23 shows that the responses on business performance had a mean of 2.84 (= disagreed) and standard deviation of 1.15. Access to microcredit has increased the monthly profit of my business had 6(9.0 percent) of the respondents strongly agreeing with the statement, 21(23.9 percent) agreeing, with 25(37.3 percent) being neutral, 12(17.9 percent) disagreeing, and 3(4.5 percent) strongly disagreeing. Access to microcredit has increased the assets of my business had 5(7.5 percent) of the respondents strongly agreeing with the statement, 13(19.4 percent) agreeing, 17(25.4 percent) disagreeing, and 27(40.3 percent), and 5(7.5 percent) strongly disagreeing. Other results were access to microcredit

has increased the monthly sales of my business had 9(13.4 percent) of the respondents strongly agreeing with the statement, 2(3.0 percent) agreeing, 8(11.9 percent) being neutral, 24(35.8 percent) disagreeing, and 24(35.8 percent) strongly disagreeing. Access to micro credit has increased the number of employees in my business had 7(10.4 percent) of the respondents strongly agreeing with the statement, 20(29.9 percent) agreeing, 24(35.8 percent) being neutral, 6(9.0 percent) disagreeing, and 10(14.9 percent) strongly disagreeing.

The results above agree with those of Shariff, et. al. (2008) on their research on factors that influence the survival and performance of SMEs, they found that business performance is strongly influenced by access to micro finance. The results also agree with those of Rose (2012) who found that access of micro credit significantly led to increase in sales level. In her study, majority of the respondents were of the opinion that their businesses improved in terms of sales volume as a result of using micro credit. The results also agree with Muiruri (2014) who found that SMEs that credit services from MFIs showed growth in staff employed, revenue earned and sales.

**Table 4.24 Monthly Profit Before And After Micro Credit**

<b>Amount</b>	<b>Monthly Profit</b>	
	<b>Before Micro Credit</b>	<b>After Micro Credit</b>
<b>100000 – 200000</b>	16 (24.2 percent )	11 (16.7 percent )
<b>200000 – 300000</b>	23 (34.8 percent )	15 (22.7 percent )
<b>300000 – 400000</b>	6 (9.1 percent )	12 (18.2 percent )
<b>500000 – 600000</b>	5 (7.6 percent )	3 (4.5 percent )
<b>600000 – 700000</b>	4 (6.1 percent )	4 (6.1 percent )
<b>700000 – 800000</b>	3 (4.5 percent )	2 (2.0 percent )
<b>800000 – 900000</b>	1 (1.5 percent )	4 (6.1 percent )
<b>900000 – 1000000</b>	2 (3.0 percent )	1 (1.5 percent )
<b>1000000 – 1500000</b>	1 (1.5 percent )	2 (3.0 percent )
<b>1500000 – 2000000</b>	2 (3.0 percent )	1 (1.5 percent )
<b>Over 2000000</b>	7 (10.6 percent )	12 (18.2 percent )

The results in Table 4.24 show that those who made a monthly profit of between Kenya shillings 100000 – 200000 were 16 (24.2 percent) before micro credit, and 11 (16.7 percent) after micro credit. Those who made between Kenya shillings 200000 – 300000 were 23 (34.8 percent) before micro credit, and 15 (22.7 percent) after micro credit. Those who made between Kenya shillings 300000 – 400000 were 6 (9.1 percent) before micro credit, and 12 (18.2 percent) after micro credit. Those who made between Kenya shillings 500000 – 600000 were 5 (7.6 percent) before micro credit, and 3 (4.5 percent) after micro credit. Those who made between Kenya shillings 600000 – 700000 were 4 (6.1 percent) before micro credit, and 4 (6.1 percent) after micro credit.

Other results from this study table 4.24 were those who made between Kenya shillings 700000 – 800000 were 3 (4.5 percent) before micro credit, and 2 (2.0 percent) after micro credit. Those who made between Kenya shillings 800000 – 900000 were 1 (1.5 percent) before micro credit, and 4 (6.1 percent) after micro credit. Those who made between

Kenya shillings 900000 – 1000000 were 2 (3.0 percent) before micro credit, and 1 (1.5 percent) after micro credit. Those who made between Kenya shillings 1000000 – 1500000 were 1 (1.5%) before micro credit, and 2 (3.0 percent) after micro credit. Those who made between Kenya shillings 1500000 – 2000000 were 2 (3.0 percent) before micro credit, and 1 (1.5 percent) after micro credit. Those who made over Kenya shillings 2000000 per month were 7 (10.6 percent) before micro credit, and 12 (18.2 percent) after micro credit. The results thus show that there was a general increase in the monthly profit of the businesses sampled when comparing the period before micro credit disbursement and that after the micro credit. Thus, the micro credit loans led to increase in the monthly profit. The results agreed with those of David (2012), who found that businessmen use credit to expand their business leading to increase in income. They also agreed with those of Muiruri (2014) who found that businesses that received MFI services in Thika Municipality reported rapid growth in sales and revenue.

**Table 4.25 Monthly Sales Before And After Micro Credit**

Amount	Monthly Sales	
	Before Micro Credit	After Micro Credit
0 – 200000	14 (21.2 percent)	10 (15.2 percent)
200000 – 400000	17 (25.8 percent)	13 (19.7 percent)
400000 – 600000	3 (4.5 percent)	8 (12.1 percent)
600000 – 800000	5 (7.6 percent)	3 (4.5 percent)
800000 – 1000000	7 (10.7 percent)	6 (9.1 percent)
1200000 – 1400000	5 (7.6 percent)	7 (10.7 percent)
1400000 – 1600000	0 (0 percent)	2 (3.0 percent)
1800000 – 2000000	4 (6.1 percent)	1 (1.5 percent)
Over 2000000	12 (18.2 percent)	17 (25.8 percent)

The results in Table 4.25 show that on the monthly sales, the businesses with 0 – 200000 in sales were 14 (21.2 percent) before micro credit and 10 (15.2 percent) after micro credit. Those with sales of 200000 – 400000 were 17 (25.8 percent) before micro credit and 13 (19.7 percent) after micro credit. Those with 400000 – 600000 in sales were 3 (4.5 percent) before micro credit and 8 (12.1 percent) after micro credit. Those with 600000 – 800000 in sales per month were 5 (7.6 percent) before micro credit and 3 (4.5 percent) after micro credit. Those with sales of 800000 – 1000000 were 7 (10.7 percent) before micro credit and 6 (9.1 percent) after micro credit.

The businesses with 1200000 – 1400000 in sales were 5 (7.6 percent) before micro credit and 7 (10.7 percent) after micro credit. Those with sales of 1400000 – 1600000 were none (0 percent) before micro credit and 2 (3.0 percent) after micro credit. The businesses with sales of 1800000 – 2000000 before micro credit were 4 (6.1 percent) before micro credit and 1 (1.5 percent) after micro credit. Those with over 2000000 in sales per month were 12 (18.2 percent) before micro credit and 17 (25.8 percent) after micro credit. The results thus show that there was a general increase in the monthly sales of the businesses sampled when comparing the period before micro credit disbursement and that after the micro credit. Thus, the micro credit loans led to increase in the monthly sales. The results agreed with those of Muiruri (2014) who found that businesses that received MFI services in Thika Municipality reported rapid growth in sale, revenue and number of employees employed.

**Table 4.26 Business Assets Before And After Micro Credit**

<b>Value</b>	<b>Business Assets</b>	
	<b>Before Mirco Credit</b>	<b>After Micro Credit</b>
0 – 1000000	38 (57.6 percent)	32 (48.5 percent)
1000000 – 2000000	8 (12.1 percent)	10 (15.2 percent)
2000000 – 3000000	6 (9.1 percent)	6 (9.1 percent)
3000000 – 4000000	1 (1.5 percent)	4 (6.1 percent)
4000000 – 5000000	1 (1.5 percent)	0 (0 percent)
5000000 – 6000000	2 (3.0 percent)	2 (3.0 percent)
6000000 – 7000000	1 (1.5 percent)	1 (1.5 percent)
7000000 – 8000000	2 (3.0 percent)	2 (3.0 percent)
8000000 – 9000000	1 (1.5 percent)	0 (0 percent)
9000000 – 10000000	0 (0 percent)	0 (0 percent)
Over 10000000	6 (9.1 percent)	9 (13.6 percent)

The results in Table 4.26 on the business assets, show that the businesses with 0 – 1000000 value in assets were 38 (57.6 percent) before micro credit disbursement and 32 (48.5 percent) after micro credit disbursement. Those with between 1000000 – 2000000 in assets were 8 (12.1 percent) before micro credit and 10 (15.2 percent) after micro credit. Those with 2000000 – 3000000 in assets were 6 (9.1 percent) before micro credit and 6 (9.1 percent) after micro credit. The businesses with 3000000 – 4000000 in assets was 1 (1.5 percent) before micro credit and 4 (6.1 percent) after micro credit. Those with 4000000 – 5000000 in assets were 1 (1.5 percent) before micro credit and none (0 percent) after micro credit. Those with 5000000 – 6000000 were 2 (3.0 percent) both before and after micro credit disbursement. Those with 6000000 – 7000000, 7000000 – 8000000, in assets were 1 (1.5 percent) and 2 (3.0 percent) both before and after micro credit, respectively.

There was one (1.5 percent) with 8000000 – 9000000 before micro credit and none after micro credit. Those with over 10000000 in assets were 6 (9.1 percent) before micro credit and 9 (13.6 percent) after micro credit. The results thus show that there was a general increase in business assets after micro credit services. This means that the businesses benefitted from the micro credit loans by having an increase in their assets. The results agreed with those of David (2012), who found that businessmen use credit to expand their business leading to increase in income. They also agreed with those of Muiruri (2014) who found that enterprises that received micro credit services in Thika Municipality reported rapid growth in revenue.

**Table 4.27 Number of employees before and after micro credit**

No. of employees	Monthly Profit	
	Before Micro Credit	After Micro Credit
1 – 2	50 (75.8 percent)	43 (65.2 percent)
3 – 4	5 (7.6 percent)	9 (13.6 percent)
5 – 6	4 (6.1 percent)	6 (9.1 percent)
6 – 7	3 (4.5 percent)	4 (6.1 percent)
8 – 9	2 (3.0 percent)	2 (3.0 percent)
9 – 10	1 (1.5 percent)	1 (1.5 percent)
Over 10	1 (1.5 percent)	1 (1.5 percent)

The results in Table 4.27 on the number of employees, show that the businesses with 1 – 2 employees before micro credit were 50 (75.8 percent) which reduced to 43 (65.2 percent) after micro credit. Those with 3 – 4 employees before micro credit were 5 (7.6 percent) which increased to 9 (13.6 percent) after micro credit. Those with 5 – 6 were 4 (6.1 percent) before micro credit and this increased to 6 (9.1 percent) after the micro credit

disbursement. Businesses with 6 – 7 employees were 3 (4.5 percent) before micro credit and after micro credit 4 (6.1 percent). Those with 8 – 9 employees were 2 (3.0 percent) both before and after micro credit, while 1 (1.5 percent) had 9 – 10 employees both before and after micro credit. Another one business (1.5 percent) had over 10 employees both before and after micro credit. The results show that there was a general increase in the number of employees in the businesses sampled when comparing the period before micro credit disbursement and after the micro credit. Thus, the micro credit loans led to increase in the number of employees. The results agreed with those of Muiruri (2014) who found that businesses that received MFI services in Thika Municipality reported rapid growth in number of employees employed.

#### **4.9 Inferential Analysis**

This section presents the results of regression model assumptions, correlation analysis, and multiple regression analysis. The results show the relationship between variables both independent and dependent.

##### **4.9.1 Multiple Regression Model Assumption Test Results**

Multiple Regression has several assumptions, which are linear relationship, normality, multicollinearity, independence of residuals (Conboy, 2011). The study tested the following assumptions of multiple regression models:

##### **4.9.2 Normality Assumption Test**

The study tested for normality assumptions to ascertain if all the variables have a normal distribution. Kolmogorov-Smirnov test (K-S) one sample test was used to test the assumption of the normality of the population distribution.

**Table 4.28 Normality Test**

Items	Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
Micro-credit terms	1.702	0.135
Micro-credit cost	1.031	0.141
Collateral requirement	2.313	0.236
Financial management skills	1.314	0.173
Financial performance of MSMEs	2.706	0.247

The study findings in Table 4.28 indicated that data was considered to come from a normal distribution because the significance values were greater than 0.05. Linear regression assumes that variables are normally distributed. This implies that the error between the observed and predicted values should be normally distributed and has a mean of zero. According to Crossley (2012), Kolmogorov-Smirnov's value less than 0.05 indicate that the data is not normal, and if the significance value is greater than 0.05, the data is normal distributed.

#### 4.9.3 Multicollinearity Test Assumption

The study tested multicollinearity problems using tolerance and variance inflation factor (VIF). The study results were presented in table 4.29.

**Table 4.29 Multicollinearity Test Assumption**

Items	Tolerance	VIF
Micro-credit terms	.463	2.257
Micro-credit cost	.550	2.323
Collateral requirement	.404	2.582
Financial management skills	.454	2.327

The study results revealed that micro-credit terms had a tolerance value of 0.463 and a VIF value of 2.257. Micro-credit cost had a tolerance value of 0.550 and a VIF value of 2.323. The collateral requirement had a tolerance value of 0.404 and a VIF value of 2.582. Financial management skills had a tolerance value of 0.454 and a VIF value of 2.327. This gives an implication that the tolerance level for all variables was above 0.1, and VIF were all below 10. Therefore, no independent variable was removed from the analysis. The assumption of multicollinearity means that there is no correlation between independent variables in the data. According to Miles (2014), a tolerance of below 0.10 or a VIF greater than 10 shows serious multicollinearity problems. Tolerance measure the influence of one independent variable on all other independent variables. Further, O'Brien (2007) suggested that a tolerance value of less than 0.10 and a VIF of 10 and above indicates a multicollinearity problem.

#### **4.9.4 Correlation Analysis Results**

Correlation analysis was performed to determine the correlation between parental involvement, teacher presentation skills, mother tongue instructional materials, teacher attitude towards mother tongue, and literacy skills. In order to assess the direction and strength and to determine the relationship between the independent variables and dependent variable, Pearson's product-moment correlation ( $r$ ) was used. Each of the independent variables and dependent variables where correlation coefficient ( $r$ =between +1 and -1) measures the strength and direction of a linear relationship between each of the independent variables and dependent variables. As per Thanoon, Adnan, and Saffari (2015), Pearson Correlation of  $r=+0.7$  indicates a very strong relationship;  $r=+0.5$  to below 0.7 indicates a strong relationship;  $r=+0.3$  to +0.49 indicates a moderate relationship, and

$r=.029$  and below indicates a weak relationship. Where  $r= 0$  it indicates that there is no relationship. However, the value of  $+1$  shows a perfect linear relationship. The established association between dependent variables and the independent variable was described in Table 4.30.

**Table 4.30 Correlations Between the Independent and the Dependent Variables**

		<b>Micro credit terms</b>	<b>Micro credit costs</b>	<b>Collateral requirements</b>	<b>Financial management skills training</b>	<b>Financial performance of MSMEs</b>
Microcredit terms	Pearson Correlation	1				
	Sig. (2-tailed)	.000				
	N	67				
Micro credit costs	Pearson Correlation	.092	1			
	Sig. (2-tailed)	.345	.000			
	N	67	67			
Collateral requirements	Pearson Correlation	.067	.207	1		
	Sig. (2-tailed)	.623	.378	.000		
	N	67	67	67		
Financial management skills	Pearson Correlation	.440	.752	.410	1	
	Sig. (2-tailed)	.326	.206	.128	.000	
	N	67	67	67	67	
Financial performance of MSMEs	Pearson Correlation	.475*	-.205*	-.341*	-.207**	1
	Sig. (2-tailed)	.000	.001	.005	.030	
	N	67	67	67	67	67

\*. Correlation is significant at the 0.05 level (2-tailed).

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

The results in Table 4.30 on correlations indicates that the associations between the independent variables, microcredit terms and collateral requirements and the dependent variable were significant at the 95% confidence level ( $p<0.05$ ). At the 0.05 significance level ( $r=0.475$ ,  $p<0.05$ ), there is a statistically significant relationship between microcredit

terms and financial performance of MSMEs in Baringo County. It is thus inferred that microcredit terms predicate financial performance of MSMEs in Baringo County. Micro credit terms have a positive relationship with financial performance of MSMEs in Baringo County. The results agree with those of Gichuki, *et. al.* (2014) who found that in Africa micro enterprises have limited access to micro credit, hence affects their development and expansion.

The analysis also indicates that micro credit costs has a weak negative and significant association with financial performance of MSMEs in Baringo County ( $r=-0.205$ ,  $p< 0.05$ ). This could be argued to imply that the introduction of micro credit costs contributes to financial performance of MSMEs in Baringo County whereby if micro credit costs were reduced financial performance of MSMEs in Baringo County would improve following the strong relationship. The results agree with those of Quaye, (2011), who found that Micro Small and Medium Enterprises normally have low opportunities to access credit facilities and other financial support services provided by micro lenders as the banks find it costly when dealing with small firms since it is cumbersome to recoup on the costs incurred on them and also there are the some risks attached to giving out loans to MSMEs that discourage banks from doing business with them.

The analysis further indicated that collateral requirements had a moderate negative relationship with financial performance of MSMEs in Baringo County ( $r=-0.341$ ,  $p<0.05$ ). This could also imply that collateral requirements contributed to financial performance of MSMEs in Baringo County whereby if collateral requirements were reduced financial performance of MSMEs in Baringo County would as well improve at a moderate positive relationship. The results agree with those of Quaye, (2011), who found that Micro Small

and Medium Enterprises normally have low opportunities to access credit facilities and other financial support services provided by micro lenders as the MSMEs cannot provide the mandatory loan security required by the financial institutions.

The analysis also indicated that financial management skills training practices had a weak negative and significant relationship with financial performance of MSMEs in Baringo County ( $r=-0.207$ ,  $p<0.05$ ). This could also imply that financial management skills training practices contributed to financial performance of MSMEs in Baringo central constituency of Baringo County whereby if financial management skills training practices were improved financial performance of MSMEs in Baringo central constituency, Baringo County would as well improve at weak positive relationship. The results agree with those of Ledgerwood (1998) who found that potential entrepreneurs often need skills training or other inputs to make their enterprises a success and fast-growing micro enterprises have particular problems in controlling their finances.

#### **4.9.5 Regression Analysis**

Multiple regression analysis was conducted by the researcher so as to check on relationship among independent (variables) on the effect of micro credit access on the financial performance of micro small and medium enterprises. The statistical package for social sciences (SPSS V 21.0) was used by the researcher to code, enter and compute the measurements of the multiple regressions for the study.

**Table 4. 31 Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.588 <sup>a</sup>	.346	.181	.52311

a. Predictors: (Constant), micro credit terms, micro credit costs, collateral requirements, financial management training

The result in Table 4.31, on the model summary shows that, the coefficient of determination for the data ( $R^2$ ) was 0.346. This means that the chosen independent variables (micro credit terms, micro credit costs, collateral requirements) explain 34.6% of the variations in the dependent variable (predicate financial performance of MSMEs in Baringo central constituency, Baringo County) in the study population. Thus 65.4% of the variations in financial performance of MSMEs is explained by other factors not captured in the model. The findings also suggest that the model could improve when more variables were incorporated into during assessment of the effect of micro credit services access factors on financial performance of MSMEs in Baringo central constituency, Baringo County.

**Table 4. 32 ANOVA Results**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	11.028	4	2.757	5.281	.002 <sup>b</sup>
1 Residual	32.354	62	.522		
Total	43.382	66			

a. Dependent Variable: Financial performance of MSMEs

b. Predictors: (Constant), micro credit terms, micro credit costs, collateral requirements

The results in Table 4.32 on ANOVA performed on the independent and dependent variables indicates existence of a significant variations on the means of the variables describing micro credit access factors and the financial performance of MSMEs in Baringo

County. ( $F_o = 5.281 > F_t = 2.37$ ;  $\alpha < 0.05$ ;  $df = 4,62$ ;  $p = 0.05$ ). This finding confirms the finding suggested by regression model in Table 4.32. The above ANOVA indicates the relevants of the obtained data in drawing conclusion on parameters of the population as the value is significant at  $P < 0.05$ . It shows that regression association was significant in forecasting how micro credit terms, micro credit costs, collateral requirements influence the financial performance of MSMEs.

#### 4.9.6 Regression Coefficients

The study computed the regression model equation in order to determine the relative significance of every independent variable in predicting the dependent variable. To determine the relative importance of each independent variable in predicting the dependent variable, the regression model equation was computed. Table 4.33 shows the coefficients (parameter estimates)

**Table 4.33 Regression Coefficients**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std.	Beta		
	Error				
(Constant)	2.916	.426		4.498	.000
Micro credit terms	.410	.137	.513	3.002	.002
Micro credit costs	-.224	.102	-.225	-2.133	.001
Collateral requirements	-.184	.251	-.126	-2.097	.003
Financial management skills training	-.196	.167	-.132	-.485	.029

Based on the results in Table 4.33, the coefficient associated with the regression constant is 2.916, with a standard error of 0.426. The coefficient associated with the first independent variable, namely micro credit terms, 0.410, with a standard error of 0.137. The coefficient associated with the second independent variable namely micro credit costs, -0.224 with a standard error of 0.102. The coefficient associated with the third variable, Collateral requirements was -0.184, with a standard error of 0.251. Finally, the coefficient associated with the fourth independent variable financial management skills training, is -0.196, with a standard error of 0.167.

Consequently, the regression model can be stated as:

$$Y = 2.916 + 0.410X_1 - 0.224X_2 - 0.184X_3 - 0.196X_4$$

The resulting model generated from the study is therefore:

Financial performance of MSMEs = 1.916 + 0.410 Micro credit terms - 0.224 Micro credit cost - 0.184 Collateral requirements - 0.196 Financial management skills.

This implies that a unit increase in micro credit terms will lead to 0.410 units increase in financial performance of MSMEs. A unit increase in micro credit costs will lead to 0.224 units decrease in financial performance of MSMEs. A unit increase in collateral requirements will lead to 0.184 units decrease in financial performance of MSMEs. A unit increase in lack of financial management skills training will lead to 0.196 units decrease in financial performance of MSMEs. Thus, the predictors can be used to explain the variability in financial performance of MSMEs in Baringo County.

#### 4.10 Summary of Hypotheses Tests

This study used multiple regression models to test four hypotheses. The null hypothesis was rejected if p-value was found to be less than the 0.05 conventional and if p-value was above 0.05, the study failed to reject the null hypothesis. The hypotheses test results were presented in Table 4.34.

**Table 4.34 Summary of Hypotheses Test Results**

Hypotheses	$\beta$ and P values	Decision rule(accept/reject)
<b>H<sub>01</sub></b> Micro-credit terms have no significance influence on financial performance of micro small and medium enterprises	$\beta_1=0.410, p=0.002<0.05$	Rejected the null hypothesis
<b>H<sub>02</sub></b> Micro-credit cost have no significance influence on financial performance of micro small and medium enterprises	$\beta_2=-0.224, p=0.001<0.05$	Rejected the null hypothesis
<b>H<sub>03</sub></b> Collateral requirement have no significance influence on financial performance of micro small and medium enterprises	$\beta_3=-0.184, p=0.003<0.05$	Rejected the null hypothesis
<b>H<sub>04</sub></b> Financial management skills have no significance influence on financial performance of micro small and medium enterprises	$\beta_4=-0.196, p=0.029<0.05$	Rejected the null hypothesis

**H<sub>01</sub>: Micro credit terms have no significant effect on financial performance of MSMEs in Baringo County.**

Looking at the results in Table 4.34, it is clear that there was indeed a significant positive effect of microcredit terms on financial performance of MSMEs in Baringo central constituency of Baringo County ( $\beta = .410$ ,  $p = .002 < 0.05$ ). The Null Hypothesis one was, therefore, rejected suggesting that micro credit terms affect the financial performance of MSMEs in Baringo Central Constituency, Baringo County more than the other variables in the model. The results also agree with Muiruri (2014) who found that the businesses that received MFI services reported growth in sale, revenue and number of employees employed.

**H<sub>02</sub>: Micro credit costs have no significant effect on financial performance of MSMEs in Baringo County.**

Looking at the results in Table 4.34, it is clear that micro credit cost significantly affects financial performance of MSMEs in Baringo County negatively ( $\beta = -.224$ ,  $p = .001 < 0.05$ ). The study thus rejected the Null Hypothesis two and concludes that micro credit costs have a negative and significant effect on financial performance of MSMEs in Baringo central constituency, Baringo County. The results agree with those of Gichuki *et. al.* (2012), who found that respondents preferred to get their startup capital from personal savings, relatives and friends because of collateral requirement and high repayment cost by financial institutions.

**H<sub>03</sub>: Collateral requirements have no significant effect on financial performance of MSMEs in Baringo central constituency, Baringo County.**

With regard to this hypothesis, the results in Table 4.34 suggest that collateral requirements significantly and negatively affect financial performance of MSMEs in Baringo Central Constituency, Baringo county ( $\beta = -.184$ ,  $p = .003 < 0.05$ ). The study thus fails to accept Null Hypothesis Three and concludes that collateral requirements have a significant and negative effect on financial performance of MSMEs in Baringo Central Constituency, Baringo County. The result agrees with those of Morobe (2015) who found that collateral requirement inhibits enterprises from accessing micro finance loans. The results also agree with those of Gichuki et. al. (2012), who found that respondents preferred to get their startup capital from personal savings, relatives and friends because collateral requirement and high repayment cost by financial institutions.

**H<sub>04</sub>: Financial management skills training have no significant effect on financial performance of MSMEs in Baringo Central Constituency, Baringo County.**

With regard to this hypothesis, the results in Table 4.34 suggest that financial management skills training significantly affect financial performance of MSMEs in Baringo Central Constituency, Baringo County negatively ( $\beta = -.196$ ,  $p=0.029 < 0.05$ ). The study thus rejected Null Hypothesis four and concludes that financial management skill training has a negative and significant effect on financial performance of MSMEs in Baringo Central Constituency, Baringo County. The results disagree with those of Wachira (2012) who found that training programs by micro lenders did not affect the performance of micro enterprises.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

In this chapter, findings summary, study conclusion, recommendation and suggestion for further studies are outlined.

#### **5.1 Summary of the Study**

The purpose of this research project was to determine empirically how micro credit terms, cost of micro credit, collateral requirement and financial management skills training and their centrality on financial performance of MSMEs in Baringo Central constituency, Baringo County.

On micro credit terms which constitutes repayment period, the researcher found out that there is significant relationship between micro credit terms and financial performance MSMEs in Baringo Central constituency, Baringo County. The least important factor was loan repayment period affects profitability of the business. The micro credit terms were generally found to affect the financial performance of MSMEs.

On micro credit costs, the research indicates that micro credit cost has a weak and significant relationship with financial performance MSMEs in Baringo Central constituency, Baringo County. Micro credit costs were therefore found to inhibit micro small and medium enterprises from accessing credit facilities and other financial support services.

On collateral requirements, this study found that collateral requirement have moderate positive relationship with financial performance MSMEs in Baringo Central constituency, Baringo County. Most financial institutions ask for collateral security before advancing any micro credit facility to MSMEs. Loan security was one of the factors limiting access to micro credit by MSMEs in Baringo Central Constituency, Baringo County. The loan security required by micro credit institutions had a high influence on the assets and working capital of the business. The least important factor was interest rates affect growth in sales of the business.

On financial management skills training, this study found out that financial management skills training had weak positive but not significant relationship with financial performance financial performance MSMEs in Baringo Central constituency, Baringo County. Most MSMEs operators in Baringo Central Constituency, Baringo County have been trained on process of handling business finance. Most MSMEs who have not been trained in financial management skills do not employ a professional to assist them in bookkeeping. Financial management skills are important in ensuring optimization of resources for growth of MSMEs in Baringo Central Constituency.

## **5.2 Conclusion of the Study**

The results of the study reveal that micro credit terms, micro credit cost, collateral requirement and financial management skills, affect the financial performance of MSMEs in Baringo Central Constituency, Baringo County.

We conclude that micro credit terms influence the financial performance of MSMEs in Baringo Central constituency, Baringo County. On micro credit cost we conclude that it

has a negative and significant effect on financial performance of MSMEs in Baringo Central constituency, Baringo County. We conclude that collateral requirements have significant and negative effect on financial performance of MSMEs in Baringo Central constituency, Baringo County while financial management skills have a negative but not significant effect in financial performance of MSMEs in Baringo Central Constituency, Baringo County.

### **5.3 Recommendations of the Study**

In view of the findings from the research, the study recommends that the MSMEs in Baringo Central Constituency, Baringo County should take into account the micro credit terms, micro credit cost, collateral requirement and financial management skills since the study revealed a positive significant effect on financial performance by this attribute.

As per findings the study recommends that the micro finance institutions should focus on and improve the micro credit terms especially the duration of loan repayment as this was the main factor found to be significant in the study.

The study recommends that micro finance institutions should reduce the costs involved in giving the micro credit services as a means of improving the uptake of micro credit services.

The study recommends that MSME owners should be keen on the collateral requirements that individual micro finance institutions need as these was found to have a positive effect on their financial performance of MSMEs. The study thus recommends that micro finance institutions should improve on the requirements on collaterals to increase uptake of micro credit loans by the MSMEs.

On training on financial management skills, the study recommends that MSME owners should go for training as this improves bookkeeping skills which was found to have positive effect on financial performance of MSMEs.

#### **5.4 Recommendations for Further Studies**

This study was driven to micro- credit access and financial performance of micro small and medium enterprises in Baringo Central constituency of Baringo County, Kenya and thus, the results are limited to MSMEs operating within Baringo Central Constituency. This study recommends further studies be carried out on other MSMEs that operate in various areas in Kenya. The study also recommends that future studies focus on particular micro credit terms factors to examine their influence on MSMEs' performance.

## REFERENCES

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## **APPENDIX 1**

### **LETTER OF INTRODUCTION TO THE RESPONDENT**

Kipsafari Toromo,

Po Box 430,

Kabarnet, Kenya.

Mobile No. 0721955860

Dear Sir/Madam,

Ref: Research on micro credit access and financial performance of Micro small and Medium Enterprises in Baringo Central Constituency, Kenya.

I am a student in the school of Business, Kenyatta University pursuing a degree in master of Business Administration. To be awarded the degree, I am carrying out a research on, micro credit access and financial performance of Micro small and Medium Enterprises in Baringo Central Constituency, Kenya.

Please kindly fill this questionnaire at your own time.

Kindly this exercise is mainly for academic work and confidentiality will be maintained.

Thank you.

Yours Sincerely,

Kipsafari Toromo

**APPENDIX II**  
**QUESTIONNAIRE**

**Instructions: Please tick where appropriate**

**SECTION A: PERSONAL INFORMATION**

Age 18-30  31-40  41-50  50 and above

Gender Male  Female

Education Level None  Primary  High school  Post-Secondary

Employment type Self  Formal  Unemployed

Marital Status Not Married  Married  Divorced  Separate

1. Name of the MSMES (optional).....

2. Business type: Micro  Small  Medium

3. Which industry sector does your enterprise fall?

Hospitality  Services

Retail  Cosmetics and Beauty

Building & Construction

Agriculture  Transport

Production

Others, specify .....

4. How many employees are there?

1-20 [ ]

21-50 [ ]

5. Time period the MSMES been in business?

Below 6 years [ ]

6 - 10 years [ ]

11 - 15 years [ ]

Above 15 years [ ]

6. Have you borrowed any loan from a microfinance institution before? Yes -----No—

7. Tick your other sources of micro credit?

Employer	
Friends and related persons	
Saccos	
Bank	
Groups contributions	

8. Analyze the changes before and after micro credit financing

<b>ACTIVITY</b>	<b>BEFORE CREDIT</b>	<b>MICRO</b>	<b>AFTER MICRO CREDIT</b>
Monthly profit in ksh.			
Business assets (stock) in ksh.			
Monthly sales in Ksh.			
Number of Employees			

9. Kindly tick one . To what extent does Micro credit loan affect your financial

Performance of your business.

i. Very great extent [ ]

ii. Great extent [ ]

iii. Medium extent [ ]

iv. Small extent [ ]

v. No extent [ ]

**SECTION A: TERMS IN MICRO CREDIT**

10. When do you normally repay the loan? Every Week [ ] Every 2 weeks [ ] Every Month [ ]

What period does your loan take to be repaid? -----

11. Fill the following table on Micro credit terms by giving your opinion:

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Loan repayment period affect sales growth of my Business.					
Loan repayment period affect profitability of my business					
Loan repayment period affect growth in number of branches of my business.					
Loan repayment period affects the working capital of my business					
Loan repayment period affects the assets of my business					

**SECTION B: MICRO CREDIT COST**

12. Are you aware of interest rate amount charged on your loan? Yes [ ] No [ ]

13. Fill the following table on Micro credit cost terms affecting your business by giving your opinion:

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Rates of interest influence the growth in sales of the business					
Rates of interest influence profitability of the business.					
Rates of interest influence					

growth in branches of business.					
Rates of interest influence growth in working capital of business					
Rates of interest influence growth in assets of business					

**SECTION C: COLLATERAL REQUIREMENT**

14. Do financial institutions ask for loan security before advancing any micro credit? Yes [  ] No [  ]

15. Fill the following table on terms on collateral requirement affecting your business by giving your opinion:

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Loan security required by micro credit institutions affect the growth in sales of my business					
Loan security required by micro credit institutions affect profitability of my business					
Loan security required by micro credit institutions affect the growth in branches of my business					
Loan security required by micro credit institutions affects the working capital of my business					
Loan security required by micro credit institutions affects the assets of my business					

**SECTION D: TRAINING ON FINANCIAL MANAGEMENT SKILLS**

16. Have you been trained on process of handling finances in business? Yes [ ] Not yet [ ]

17. If Not yet, have you had a professional hired in your business to handle your financial matters?

Yes [ ] No [ ]

18. Give your opinion on the following statements regarding training on financial management skills.

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Training on financial management affect profitability of my business					
Training on financial management skills affect growth of sales of my business.					
Your training contributed to your business financial Performance					
Training on financial management skills affect growth of branches of my business					
Training on financial management skills affect growth of assets of my business					

**SECTION E: FINANCIAL PERFORMANCE OF THE BUSINESS**

19. Give your opinion on the following statements regarding performance of your Business

<b>Statement</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Access to microcredit has increased the monthly profit of my business					
Access to microcredit has increased the assets of my business					
Access to microcredit has increased the monthly sales of my business					
Access to microcredit has increased the number of employees in my business					

## APPENDIX III RESEARCH AUTHORIZATION



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 3310571, 2219420  
Fax: +254-20-318245, 318249  
Email: dg@nacosti.go.ke  
Website: www.nacosti.go.ke  
When replying please quote

NACOSTI, Upper Kabete  
Off Waiyaki Way  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref. No. **NACOSTI/P/18/87438/26602**

ate: **16<sup>th</sup> November, 2018**

Toromo Kipsafari  
Kenyatta University  
P.O. Box 43844-00100  
**NAIROBI**

#### **RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on *“Micro- Credit access and financial performance of Micro Small and Medium Enterprises in Baringo County, Kenya”* I am pleased to inform you that you have been authorized to undertake research in **Baringo County** for the period ending **15<sup>th</sup> November, 2019**.

You are advised to report to **the County Commissioner and the County Director of Education, Baringo County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

**GODFREY P. KALERWA MSc., MBA, MKIM  
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner  
Baringo County.

The County Director of Education  
Baringo County.

*National Commission for Science, Technology and Innovation is ISO9001:2008 Certified*

**APPENDIX IV RESEARCH PERMIT**

**THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013**

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



**REPUBLIC OF KENYA**

**CONDITIONS**

1. The License is valid for the proposed research, location and specified period.
2. The License and any rights thereunder are non-transferable.
3. The Licensee shall inform the County Governor before commencement of the research.
4. Excavation, filming and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
5. The License does not give authority to transfer research materials.
6. NACOSTI may monitor and evaluate the licensed research project.
7. The Licensee shall submit one hard copy and upload a soft copy of their final report within one year of completion of the research.
8. NACOSTI reserves the right to modify the conditions of the License including cancellation without prior notice.



**National Commission for Science, Technology and Innovation  
RESEARCH LICENSE**

National Commission for Science, Technology and innovation  
P.O. Box 30623 - 00100, Nairobi, Kenya  
TEL: 020 400 7000, 0713 788787, 0735 404245  
Email: dg@nacosti.go.ke, registry@nacosti.go.ke  
Website: www.nacosti.go.ke

**Serial No.A 21922**

**CONDITIONS: see back page**

**THIS IS TO CERTIFY THAT:  
MR. TOROMO KIPSAFARI  
of KENYATTA UNIVERSITY, 0-30400  
KABARNET, has been permitted to  
conduct research in Baringo County  
on the topic: MICRO- CREDIT ACCESS  
AND FINANCIAL PERFORMANCE OF MICRO  
SMALL AND MEDIUM ENTERPRISES IN  
BARINGO COUNTY, KENYA**

**Permit No : NACOSTI/P/18/87438/26602  
Date Of Issue : 16th November,2018  
Fee Received :Ksh 1000**



**for the period ending:  
15th November,2019**

**Applicant's  
Signature**

**Director General  
National Commission for Science,  
Technology & Innovation**

**APPENDIX V COUNTY COMMISSIONER RESEARCH AUTHORITY**



**OFFICE OF THE PRESIDENT**

Telephone. 053-21285  
Fax. (053)-21285  
E-Mail:  
baringocommissioner@yahoo.com  
baringocommissioner@gmail.com

**MINISTRY OF INTERIOR  
AND CO-ORDINATION  
OF  
NATIONAL GOVERNMENT**

COUNTY COMMISSIONER'S OFFICE,  
BARINGO COUNTY,  
P.O. BOX 1 - 30400  
**KABARNET.**

When replying please quote:

REF.NO: **ADM.18/2 VOL.II/49**

**14<sup>TH</sup> JANUARY, 2019**

**To whom it may concern:**

**RE: RESEARCH AUTHORIZATION**

Reference is made to a letter Ref. No. NACOSTI/P/18/87438/2662 dated 16<sup>th</sup> November, 2018 from the Director-General/CEO NACOSTI.

This is to confirm that Toromo Kipsafari of Kenyatta University has been authorized to carry out research on ***"Micro-Credit access and financial performance of Micro Small and Medium Enterprises in Baringo County, Kenya"*** for the period ending **15<sup>th</sup> November, 2019**

Please accord them the necessary support.

  
D. N. KIARIE  
For: COUNTY COMMISSIONER  
**BARINGO COUNTY**



NB: You are requested to submit a soft copy of research report to this office.

**APPENDIX VI MINISTRY OF EDUCATION RESEARCH AUTHORITY**

**REPUBLIC OF KENYA**



**MINISTRY OF EDUCATION  
STATE DEPARTMENT OF EARLY LEARNING & BASIC EDUCATION  
OFFICE OF THE COUNTY DIRECTOR  
(BARINGO).**

Our Email: countyedubaringo@gmail.com  
Tel / Fax: 053/21282

P.O. BOX 664  
**KABARNET**

REF: BAR/CDE/RESEARCH.GEN/VOL.11/81

22/10/2018

Kipsafari Toromo  
Reg. No. D53/PL/26626/2013  
Kenyatta University  
P. O. Box 43844 - 00100  
**Nairobi**

**RE: RESEARCH AUTHORIZATION.**

Reference is made to your request letter Ref No. D53/OL/26626/2013 dated 3<sup>rd</sup> October 2018 on the above subject.

I am pleased to inform you that you have been authorized to carry out research on "**Micro - Credit Access and Financial Performance of Micro Small and Medium Enterprises**" in Baringo County for the period ending **31<sup>st</sup> July, 2019**. The authorities concerned are therefore requested to give maximum support so that this research is completed within schedule.

I take this opportunity to wish you well during this research in our County.

Willie Machocho  
County Director of Education  
**Baringo County**

