# MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MERU TOWN, KENYA

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## ABSTRACT

Small and Medium Enterprises remain an integral sector in the Kenyan economy. However, financial performance of SMEs remains erratic since most of them fail to continue operating due to financial challenges. Empirical evidence has shown that Microfinance services to the sector affect financial performance of SMEs. However, the link between the two remains an issue for empirical investigation in Kenya especially in Meru County were there is scanty empirical evidence. Hence, the purpose of this study was to establish the effect of microfinance services on financial performance of Small and Medium Enterprises in Meru Town, Meru County, Kenya. The specific objectives of the study were: to determine the effect of credit facilities, savings programs and entrepreneur training programs on financial performance of SMEs in Meru Town. The study adopted descriptive research design to obtain information regarding the current status of the phenomena to describe "what exists" on variables in a situation. A sample size of 93 respondents was used. Data collection was effected using a questionnaire. Descriptive statistics and multiple regression analysis were used to analyze data. The study found a fairly strong positive relationship (R= 0.632) between microfinance services and financial performance of the SMEs. The study found a significant relationship between Microfinance Services and Financial Performance of the SMEs studied at a significance level of 0.05 that is credit facilities (p-value= 0.034), savings programmes ( p-value= 0.026) and entrepreneur training (p-value= 0.015).The findings indicated that respondents strongly agreed that MFIs funding contributed to increase of entrepreneurs who started new ventures. The findings also indicated that SMEs were inclined to MFI saving plans due to easy accessibility of their funds as well as a variety of microfinance products. It was evident that credit facilities, savings programs as well as entrepreneur training services had significant effects on the financial performance of the SMEs in Meru town.

**Keywords:** Microfinance Services, Financial Performance, Small and Medium Enterprises, Credit Facilities, Savings Programmes, Entrepreneur Training.

## I. Introduction and Background

The small and medium enterprises (SMEs) segment continues to play a significant part in the Kenyan economy. The 2007 Economic Survey designates demonstrated this contribution by indicating that its influence on the gross domestic product (GDP) rose to about 20% in 2007, compared to 13.8% in 1993. The SME sector, also commonly referred to as the informal sector, was responsible for an estimated 78% of the total employment rates in the 2005/2006 fiscal year. It was also responsible for over 57% of the new jobs created in the same financial year (Economic survey 2007). The SME Banking Sector Report (2007) estimated that about 2.2 million SMEs exist in Kenya and as Koech (2011) postulated, they are responsible for propelling economic growth, employment creation, and poverty decline and eradication in developing countries. The initial purpose of microfinance was to offer donor finances and fund experimental projects (Khan, 2005). However, with time, these firms have developed into financial institutions that offer a wide range of conventional banking services, in addition to numerous routes for opportunities that are essential for economic development and expansion. Robinson (2001) describes the role of microfinance institutions as that of aiding customers to safeguard, diversify, and augment their income, as well as to accrue wealth and reduce vulnerability to revenue and consumption uncertainties.

Microfinance services have been linked to the success of SMEs as access to capital is, a basic component for small and micro enterprises to flourish in their ambition to establish industrious capability, contest with other businesses, generate jobs, and take part in poverty mitigation (Idowu 2010). As Agnes (2003) notes, the ability to acquire finance determines the probability of survival and level of performance of any business enterprise regardless of size. Navajas (2000) added that the core goal of microcredit is to facilitate the enhancement of the performance of SMEs partly due to improved attainment of small advances that are not obtainable from the traditional banking facilities. Bass & Henderson (2000) postulated that despite the prevalence of capital and loans products in MFIs, savings services are also sought-after by customers. Although marshalling for savings that is spearheaded by MFIs has been a contentious matter in the past, a recent upsurge in consciousness about the prevalence of informal saving arrangements has prompted policy makers and relevant professionals to support these efforts. Ledger wood (1999), illustrated that some microfinance corporations facilitate supplementary services such as basic skills education, promotion, basic accounting, and invention to support newly formed and existing businesses.

Different researchers have diverse views on what financial performance entails. According to Fullerton and Wembe (2009), it denotes the extent to which an organization, through its primary business operations, can develop its resources and create proceeds. On the other hand, Atril and Mclaney (2008) defined it as the overall quantification method of the corporation's monetary status at a given period. They also add that it can be used as a basis for appraisal with comparable companies in the sector, as well as in different segments. However, Chong (2008) disagrees with the exclusive view of performance in financial terms. He is of the opinion that entrepreneurs and management of SMEs determine the standing of their ventures through considering both financial and non-monetary aspects in equal measure (Chong, 2008). Maria,

Florica, and Catalina (2002) suggest five measures that indicate financial status that are broadly classified as: financial competence, liquidity, revenue, reimbursement ability, and creditworthiness. Foster (2004), postulates that the profitability proportions determine the revenue generated by the business in consideration of specific sales ratios, assets, stock value, and the entrepreneur's share. Since the persistence of an enterprise depends on profitability, determining future profit viability is vital.

Ogindo (2006) observes that a majority of Kenyan MFIs are set-up in two major backgrounds as either NGOs or Savings and Credit Cooperative Societies. Regardless, they have and continue to serve as critical providers of loans to many low-wage earners and small enterprises in metropolitan and countryside regions. Kamau (2010) notes that despite the probability of high risks, MFIs found a way to create and offer novel, ground-breaking, and friendly methods of providing funds to low-income individuals and businesses founded on rigorous operational doctrines.

## II. Statement of the Problem

The development and profitability of SMEs boosts their capability for feasibility in the long-run, job establishment, and eradication of scarcity (Okpara & Wynn, 2007). Availability of funding and corporate improvement services also contribute significantly to the evolution of these enterprises. MFIs primarily deliver loans to SMEs as well as non-financial packages that include training and enterprise administration to ensure optimum usage of the resources availed to the lenders (Sievers and Vanderberg, 2004). In the light of these conclusions, there is a noticeable growth in the establishment of MFIs in Meru town.

Various studies have been done in Kenya on SMEs and how they are influenced by microfinance services. Mutuku (2010) studied on the impact of microfinance institutions on SMEs in Kenya and found out that they had a great impact on employment creation and poverty alleviation. Ngugi (2009); Kioko (2009); Makena (2011) studied on the financial challenges faced by SMEs and found that inadequacies in access to finance are key obstacles to SMEs growth. Kemei (2011) studied on the relationship between microfinance services and financial performance of SMEs. In view of the studies, positive and significant relationships have been established between MFIs loans and SMEs performance.

Interestingly, regardless of the numerous supports from MFIs, most of the SMEs in Meru town rarely persist past the incubation. This is despite the enhanced availability of microcredit and other non-monetary assistance from MFIs, and the fact that previous literature links these MFIs services to SME success in Kenya. Given this vital problem and considering also the contributions of SMEs in the Kenyan economy, limited studies on the effects of microfinance services on the financial performance of SMEs in Meru Town have been carried out. The study sought to fill the research gap by establishing the effect of microfinance services on the financial performance of SMEs in Meru Town, Kenya.

## III. Objectives of the Study

The study sought to achieve the following specific objectives:

i. To determine the effect of credit facilities on financial performance of Small and Medium Enterprises in Meru town, Kenya.

ii. To determine the impact of savings programs on financial performance of Small and Medium Enterprises in Meru town, Kenya.

iii. To determine the effects of entrepreneur training programs on financial performance of Small and Medium Enterprises in Meru town, Kenya.

**\*The study formulated and tested null hypotheses for each specific objective at a significance level of 0.05.**

### IV. Significance of the Study

The outcome of this research will be useful in demonstrating the role played by MFIs in the development of SMEs. The findings will build on the publications on the subject that may be useful to future researchers. The Management of Microfinance institutions may use the findings as a basis of formulating strategies to improve on constraints affecting smooth service delivery of MFIs. The findings are expected to raise awareness about the potential of MFIs and its significant contribution to economic development and promote growth for the SMEs in Meru town. This study is also very important since it will enlighten the government and other policy makers in formulating policies that will promote entrepreneurship and growth of SMEs across the country.

### V. Review of Literature

The study reviewed four theories in relation to the variables as well as empirical work from different context.

### A. Theoretical Review

The study highlights theories which anchored the study variables. Financial intermediation theory according to Shittu (2012), was first formalized in by Goldsmith (1969), Shaw (1973), and Mckinnon (1973). They viewed the role of financial markets as fundamental in promoting the progression of economies and hence the dissimilarities in growth across nations and the magnitude and excellence of products afforded by financial institutions. Bolton and Freixas (2000) adds that intermediations also intervene between the investors who avail financial capital, and the users, who are the entrepreneurs. In an investigation to determine the part played by financial intermediation in the progress of Kenyan SMEs, Namusonge, Mairura and Karanja (2013) revealed that intrusions are essential since they provide services that are similar to those provided by banks and provide capital finance. This theory helps to close the gaps between lenders (MFIs) and the borrowers (SMEs) that are in need of credit facilities.

Financial-Growth Nexus theory developed by Bagehot (1873) and advanced by Solow (1956) advocates that financial development create a productive environment for growth through supply leading and demand following effect. The theory also perceives the lack of access to finance as a critical factor responsible for the persistent income inequality as well as low financial performance of enterprises. Goldsmith, (1969); McKinnon, (1973) and Levine & Zervos (1996) also emphasized the positive role of financial institutions in economic growth as exemplified by

Ndebbio (2004).This theory has established a positive link between financial services inclusion and economic development instigated by the improvement of the financial performance of the enterprises as well as establishment of new ventures.

Jensen and Meckling (1976) proposed agency theory with a framework that provides guidelines for drafting agreements that facilitate the quantification and motivation of an agent's performance to allow action that takes into consideration the concerns of the principals. The theory contemplates on the extent to which agents, who include management, make decisions that suit the interests of the business owners Luhman and Conifer (2012). The agency cost theory agitates for effective corporate governance for SMEs with the intention to achieve optimal usage of capital by the managers and the elimination of the information asymmetry through availing correct financial facts. This information will be used by the MFIs when the shareholders or the owners want additional financing in for of credit.

### B. Empirical Review

Numerous studies have been done on microfinance and relationship with Small and Medium Enterprises. Atefah et al. (2014) in a study targeting the progress of SMEs in Kumasi, Ghana, identified the services provided to SMEs as crucial to their growth. These products include: savings opportunity, credit services, and consultation and training services for loan utilization, record keeping, and business management. Savings would enable clients to secure loans to run their businesses. This study focussed only on the aspect of access to credit services to SMEs and not various to services offered by MFIs. The study is limited in the sense that financial performance of a firm is influenced by other factors other than credit facilities. Therefore the study does not adequately address the issue of financial performance for these SMEs as a result of services offered by MFIs.

Kibet (2015) aimed to establish a link between microfinance credit and the performance of SMEs in Uasin Gishu County, Kenya. The findings showed that MFIs were the main source of initial capital for SMEs and mainly provided loans and savings services. Out of the SMEs that participated in the study, 100% of them acknowledged that they derived investment capital from loans. They reported that these funds were used for the intended and that MFIs were the primary source of the funds due to a lack of alternatives. Kibet (2015) recommends that the government should create legislation that promotes SME access to microcredit that are friendly to both parties to encourage lending, which not only impacts the economy through an enhanced circulation of money, but also relieves the unemployment rate.

In a study based in Uganda, Nahamya et al. (2013) sought to make a connection between MFI service delivery and its influence of SME development. The results indicate that several elements denote business growth. The first is that an increase in inventory is proportional to the credit obtained by SMEs in regards to amount, sufficiency, premium paid, and frequency of lending. The barriers that limit access to funding were also found to be similar to those cited in most studies, including lack of security for the loans, a high-risk perception due to inadequate business management skills, inaccessibility due to geographical location, poor technology, and low levels

of education. Further, Nahamya et al. (2013) links the amount of credit obtained to labour, with the realization that the greater credit one acquires, the more likely they are to offer more employment opportunities. The study recognizes that despite the challenges for SMEs to get financial and non-financial assistance, their role in the economy should not be down-played. The scholar recommends for government regulation of relevant frameworks that concern SMEs and MFIs to enhance access and reduce non-payment.

Kimaru (2014), in research conducted in Mogotio District, endeavoured to assess the result of MFI activities on the outcomes of SMEs managed by women. The findings reveal that despite these business functioning with little resources and investment, the financing for growing them depended heavily on finance obtained from financial institutions. MFIs were also found to be hesitant to finance female entrepreneurs' through stringent requirements such as large guarantor obligations and higher interests that disheartened them. In addition, it was established that female-initiated businesses had a relatively short life, with most being less than 4 years old, making it necessary to arrange for appropriate education and training to level the competitive ground with businessmen. Over 90% of business women, who accessed capital and business training, were found to post excellent performance and achieved immense business development. Kimaru (2014) commends the provision of loans to female entrepreneurs by MFIs without unrealistic requirements coupled with business education and training to equip them with necessary skills.

Madole (2013) sought to establish the impact of microcredit on SMEs in Tanzania using the National Microfinance Bank (NMB) in Moro go or as the case study. This study confirms that credit obtained by SMEs enriched businesses significantly. These outcomes are demonstrated by larger profits and increased in various aspects such as the number of staff, sales revenue, expansion, capital and assets, and lesser poverty among clients surveyed. Results also indicate that specific factors including security, age and familiarity of the entrepreneur, and the size of the business were key qualifications to access loans. Module's (2013) conclusion was that a majority of SMEs relied on lenders fund their ventures, and MFI credit was crucial to their survival, despite the incapacity of some businesses to recompense the loans due to short grace periods, ethical risks, and unreasonable interest rates.

Mbithe (2013) explored the aftermath of services offered by MFIs on the growth of SMEs based in Machakos County, Kenya, revealing that that MFI credit and education have a positive influence on the increase of sales, while MFI insurance is detrimental to expansion. These findings imply that MFI services have statistically significant relationships with the position of the SME. These findings agreed with Koech's (2011) view that capital market, expenses, ability to obtain funding, indemnity, ease to obtain information, financial management, and the cost of registering companies are the major elements that determine the extent of growth. Mbithe's (2013) outcomes are also reflected by Cooper (2012), who discovered the strong and positive influence of MFI services on the expansion SMEs.

## VI. Research Methodology

The study adopted descriptive research design to obtain information concerning the current status of the phenomena to describe "what exists" on variables in a situation. This descriptive design was appropriate because it enabled the study to do a descriptive analysis of the relationship between microfinance services and their effect on financial performance of small and medium enterprises. The target population of the study consisted of 93 respondents from selected Small and Medium Enterprises in various sectors within Meru town. The study focused on the business proprietors and managers of the SMEs as the target respondents. In an organization or a business enterprise with more than one manager, the study picked head of management. Purposive sampling was used to select respondents. The study also adopted stratified sampling to select SMEs from the population where 30% of the respondents were chosen from the businesses selected.

**Table 1: Sample Size**

|  | Strata | Target Population (SMEs) | Sample size (Respondents) |
|---|---|---|---|
| 1 | Barber Shops (Kinyozi) & Hair Salon | 28 | 8 |
| 2 | Hotel and Restaurants | 24 | 8 |
| 3 | Retail Shops | 20 | 6 |
| 4 | Cyber Café | 13 | 4 |
| 5 | M-Pesa Shops | 12 | 3 |
| 6 | Furniture Workshops | 6 | 2 |
| 7 | Butcheries | 18 | 6 |
| 8 | Electronics and Phone Accessories | 23 | 7 |
| 9 | Hardware Shops | 12 | 3 |
| 10 | Wholesale | 11 | 3 |
| 11 | Schools and Training Institutions | 10 | 3 |
| 12 | Tailoring Shop | 10 | 3 |
| 13 | Bookshops and Stationers | 17 | 5 |
| 14 | Pharmacies and Health Centres | 35 | 10 |

| 15 | Cloth Boutiques | 15 | 4 |
|----|-----------------|-----|---|
| 16 | Cosmetics | 10 | 3 |
| 17 | Bars | 14 | 4 |
| 18 | Motor/Motor Bike Spares | 25 | 8 |
| 19 | Matatu Transport | 8 | 3 |
| | **TOTAL** | **311** | **93** |

**Source (County Government of Meru, 2018)**

The study used questionnaires administered to each respondent to collect primary data, as well as secondary data collection sheet. The research instrument (questionnaire) was tested amongst owners and managers of some SMEs within Meru town: these were excluded from participation in the final study to avoid bias. To achieve content validity expert opinion was sought to authenticate the subject and the arrangement of the questionnaire before dissemination to determine if the items are appropriately worded to avoid misunderstanding. Reliability was determined by examining the consistency of the study results of the measuring items based on repeated trials. Cranach's alpha coefficient was used to test for reliability of the instrument. Kline (1999) classified that a Cronbach alpha value of 0.8 was ideal for reliability of intellectual-based surveys. Collected data was edited to ensure accuracy and completeness, and then items were coded and scored. Multiple Regression Analysis (Standard), Descriptive Statistics (means and standard deviations) and inferential statistics were used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings. The following regression model guided the study:

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

Where:

Y = Financial Performance, $\beta_0$ = Intercept /Regression Constant Term, $X_1$ = Credit Facilities,

$X_2$ = Savings Programmes, $X_3$ = Training Entrepreneurs, $\beta_{1-}\beta_3$ = Coefficients, $\varepsilon$= error term

## VII.    Results and Findings
The study sought to establish significant effects of credit facilities, savings programmes and entrepreneur trainings offered by the microfinance institutions on financial performance of SMEs in Meru town.

### A.  Descriptive Analysis
The respondent's opinion on the variables was analyzed descriptively by use of the frequencies, percentage and mean. Respondent's dispersion on the opinion was established by the standard

deviation from the mean. A standard deviation of more than one established a great dispersion of respondent's opinion.

Majority of the SMEs (30.3%) under study considered a loan from microfinance institutions as their source of start-up capital. Personal savings (22.4%) and contribution from friends and relatives (19.7%) were also considerably used by SMEs as start-up capital while others considered loans from commercial banks (15.8%) and customer advances (11.8%) to provide capital. The findings revealed that majority of the SMEs (27.6%) sought financial assistance from MFIs due to their easy loan repayment procedure. Other significant motivators indicated were; timeline in processing of the loan (22.4%), amount offered by MFIs (22.4%) and favourable loan repayment period (18.4%). The rest of SMEs were motivated by favourable interest rates incurred on loan borrowed from MFIs.

MFIs funding significantly at 3.87 contributed to increase of entrepreneurs who started new ventures. The findings depicted that the repayment period of loans offered by MFIs affected the financial performance of the SMEs as it reflected the urgency in which the loan was being serviced. The findings also indicated at 3.45 that MFIs offered competitive and favourable interest rates on loans given to SMEs which acted as an incentive encouraging them to seek financial assistance from MFIs. Additionally, the duration between loan applications and disbursement from MFIs was favourable enough to cover the need for which the loan was sought by the entrepreneur while SMEs increased their productivity through getting funds from MFIs that lead to the enterprise growth.

82% of the SMEs' had a saving plan with microfinance institutions. The rest of the SMEs opted to save through other means. 34.2% of the SMEs preferred microfinance institutions financing over commercial banks due to easy accessibility of their funds. They also preferred microfinance institutions over commercial banks due to; availability of a variety of microfinance products offered to the SMEs, quick customer services and less bureaucracy in the processing of loans to the SMEs. The findings indicated that a great representation of the respondents (97.3%) opined that microfinance institutions greatly needed to improve on the savings programmes. There was need to make the savings more appealing to customers to foster savings and also attract savings from more enterprises. Financial services offered by MFIs and the various types of savings including mobile banking at 3.5 greatly affected the financial performance of SMEs.

Training programmes for SMEs were considered important but only 48.7% had received training from MFIs on various aspects in their enterprises. About 51.3% were yet to receive any training from MFIs hence revealing an entrepreneurial training gap indicating need for an increase of such training by MFIs to improve on the financial performance of SMEs. 97.4% of the SMEs expressed their interest on acquiring new skills and training on the aspects offered by the MFIs to the SMEs. They opined that training on the aspects would be of great importance to the financial performance of the enterprises improving them significantly. The 2.6% of the respondents who did not expect to get any form of training exhibited a lot of expertise in management aspects and

hence would not expect significant change on the financial performance of their enterprises or had already acquired those trainings from their member MFIs.

### B. Correlation Analysis

To test for multicollinearity and deduce the inter-association among the study variables, a Pearson Product Moment correlation was conducted and the table below document the correlations output.

**Table 2: Correlation Analysis Table**

| Variable | Financial Performance | Credit Facilities | Saving Programmes | Entrepreneur Training |
|---|---|---|---|---|
| Financial Performance; Pearson | 1 | . 769 | .610 | .214 |
| Sig (2 tailed) | | . 034 | .015 | .032 |
| Credit Facilities; Pearson | . 769 | 1 | .016 | .176 |
| Sig (2 tailed) | . 034 | | .164 | .128 |
| Saving Programmes; Pearson | .610 | .016 | 1 | .037 |
| Sig (2 tailed) | .015 | .164 | | .754 |
| Entrepreneur Training; Pearson | .214 | .176 | .037 | 1 |
| Sig (2 tailed) | .032 | .128 | .754 | |
| N=76 | | | | |

**Source: Research Data (2018)**

The study found that there was strong positive correlation coefficient between financial performance of SMEs and credit facilities (0.769), savings programmes (0.610) and entrepreneur training (0.214).

### C. Regression Analysis
**Table 3: Regression Model Summary**

| Model | R | R square | Adjusted R square | Standard error of estimate |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 1 | .632[a] | .391 | .253 | .2137 |

**Source: Research Data (2018)**

The multiple linear regression analysis modelled the relationship between the dependent variable which was financial performance of SMEs and the independent variables which are microfinance services; credit facilities, savings programmes and entrepreneur training. The correlation coefficient (R) and coefficient of determination (adjusted $R^2$) depicted the degree of association between financial performance and the independent variables. The research findings indicated that there was a strong positive relationship (R= 0.632) between microfinance services and financial performance of SMEs in Meru town. The R squared 0.391 indicated that 39.1% of the changes in financial performance are attributed to changes in credit facilities, savings programmes and entrepreneur training at 95% confidence level.

### Table 3: ANOVA Results

ANOVA analysis was intended to investigate whether the variation in the independent variables explain the observed variance in the outcome. The following table presents the ANOVA results.

| | Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 6.020 | 3 | 2.007 | 2.407 | .047[a] |
| | Residual | 60.019 | 72 | .834 | | |
| | Total | 66.039 | 75 | | | |

**Source: Research Data (2018)**

The ANOVA statistics in table 4.19 document a p-value of 0.047 which indicates that the model overall is a good fit. The calculated value from the study findings was 2.407 while the critical value on t-test of 76 respondents is 1.9917. The calculated value was greater than the critical value (1.9917<2.407) which indicated that microfinance services; credit facilities, savings programmes and entrepreneur training collectively explains financial performance of SMEs in Meru town.

### Table 4: Coefficient Table

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|

| | B | Std. Error | Beta | | |
|---|---|---|---|---|---|
| 1 | 5.927 | .837 | | 7.08 | .000 |
| Constant | | | | | |
| Credit facilities | .370 | .107 | .040 | .346 | .034 |
| Savings Programmes | .235 | .103 | .260 | 2.273 | .026 |
| Entrepreneur training | .154 | .099 | .177 | 1.551 | .015 |

**Source: Research Data (2018)**

From the data in Table 4.20, the extracted regression equation is as follows:

$Y_i = 5.927 + 0.370X_1 + 0.235X_2 + 0.154 X_3$

The study established that holding microfinance services constant; credit facilities, savings programmes and entrepreneur training, financial performance of SMEs in Meru town would be at 5.927. However, a unit increase in credit facilities offered by the MFIs to the SMEs would lead to an increase in financial performance of SMEs in Meru Town by a factor of 0.370 all else held constant. A unit increase of savings programmes would lead to an increase in the financial performance of SMEs by a factor of 0.235 while the SMEs' financial performance would increase by a factor of 0.154 as a result of unit increase of the entrepreneur training all else held constant.

In view of statistical significance of the independent variables on financial performance of the SMEs, the study made the following findings; the p-value for credit facilities was 0.034 which was less that 0.05 an indication that credit facilities had a significant effect on financial performance of the SMEs. The p-value on savings programmes offered by the MFIs to the SMEs was 0.026 which was less than 0.05 indicating that savings programmes has a significant effect on SMEs' financial performance while the entrepreneur training had a 0.015 p-value which also indicated a significant effect on SMEs' financial performance. The study thus found out that credit facilities offered by the MFIs had significant effect on SMEs profitability and liquidity. The current study also found out that savings programmes provided by the MFIs to the SMEs had significant effect to the financial performance of SMEs while entrepreneur also exhibited a significant effect to the SME financial performance.

The study findings indicated a strong positive relationship (R= 0.632) between microfinance services and financial performance of SMEs. 39.1% of changes in financial performance of SMEs could be accounted for by the microfinance services; credit facilities, savings programmes

and entrepreneur training.The evaluation on sources of SMEs startup capital indicated that majority of the SMEs considered microfinance institutions. This was similar to Kibet (2015) who aimed at establishing a link between microfinance credit and the performance of SMEs in Uasin Gishu where MFIs were the main source of initial capital for SMEs and mainly provided loans and savings services. Cooper (2012) also in his study on the Impact of MFI services on the Growth of Small and Medium Enterprises who found out that one of the services provided by MFIs is credit which had great influence on SMEs` growth.

The study established that savings services including minimum savings, interest rates and mobile banking savings greatly impacted the financial performance of the SMEs. The p-value of 0.026 on savings programmes indicated a significant effect on financial performance of SMEs'. The findings are supported by Kemei (2011) who noted that savings had a strong relationship with the financial performance of SMEs as well as Cooper (2012) who noted that savings contributed to the SMEs growth. The study indicated that 51.3% of SMEs had not received trainings on entrepreneurship from MFIs. The SMEs expressed willingness to take entrepreneurial trainings such as basic business management, financial management/book keeping, customer service, business risk management as well as capital investment decision. A p-value of 0.015 on entrepreneur training indicated a significant effect on SMEs financial performance which agrees with Chi & Lin (2008) who found out that trainings greatly enhance on financial performance of SMEs.

### VIII. Conclusion and Recommendations

The study findings depicted a positive relationship between microfinance services and financial performance of SMEs. The study found that credit facilities have significant effect on financial performance of the SMEs and that SMEs failed to expand due to limited funds. The study concludes that MFI funding to SMEs enhances their operations and contributes to increase of entrepreneurial activities. Saving programmes had a p-value of less than 0.05 showing that they had significant effect on financial performance of SMEs. The study therefore concludes that there is a great need to improve on the savings programmes and make savings more appealing to customers to foster savings and also attract savings from more enterprises.

To enhance improved financial performance of SMEs, the study recommends that MFIs need to create awareness of the services they offer for the proprietors to be aware and how they can propel them to success. The study recommends that MFIs should revise their credit facilities and provide affordable credit in order for the SMEs to expand and enhance their financial performance. In addition, it is important for the government to set up policies that would ease microfinance credit financing to SMEs. The study recommends that SMEs management needs to be proactive in approaching the MFIs within their vicinity and inform them of their existing needs and challenges so that they can collaborate, connect, solve and advise them on strategies to enhance their businesses financial performance. The study recommends formulation of favourable policies by the regulators that will enhance access of critical services by SMEs in order to promote the spirit of entrepreneurship and growth of enterprises.

### IX. Contribution to Knowledge

The current study was conducted in the view of the current financial market trends, analyzed and reviewed various empirical studies on the MFI service contribution to the SMEs financial performance. The study therefore added to the body of knowledge in the finance discipline by stipulating gaps on the MFI services to the SMEs such as entrepreneurial training gaps. The study findings contributed to the financial intermediation theory and highlighted microfinance institutions as a vital source of SME funding for the enhanced financial performance of SMEs through easy access of loans as well as easy and affordable source of funds. Additionally, the study findings are instrumental in viewing the different MFI services concept to the SMEs.

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