

**MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN KITUI COUNTY, KENYA**

PAUL ASSUMPTAH MUMBUA

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

.....
PAUL ASSUMPTAH MUMBUA
D53/OL/CTY/32049/2016

.....
DATE

I confirm that the work in this research project was done by the candidate under my supervision.

Signed
DR. A JAGONO
Department of Accounting and Finance
Kenyatta University

.....
DATE

DEDICATION

This project is dedicated to my parents Mr and Mrs Paul Muange and my husband James Ngaruiya for their moral and financial support and continuous encouragement during my MBA programme.

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ABBREVIATIONS AND ACRONYMS

DTMs	Deposit Taking Micro Finance
K-REP	Kenya Rural Enterprises Fund
KWFT	Kenya Women Finance Trust
MFI	Microfinance Institutions
NACOSTI	National Commission for Science, Technology and Innovation
NGO	Non-Governmental Organization
ROA	Return on Asset
SACCOs	Savings and Credit Cooperative
SMEs	Small and medium enterprises
SPSS	Statistical Package for Social Science

OPERATION DEFINITION OF TERMS

Credit facilities	A kind of loan that is made in any business or company finance context, comprising rotating credit, loan terms, facilities that are committed, credit letters and accounts of credit retails.
Financial literacy	Refers to the control over the set of skills and knowledge that permits a person to make informed and decisions that are effective with all their resources of finance.
Financial performance	The individual measure of how good an organization can utilize assets from its primary mode of business and produce revenues.
Microfinance	The development segment that gives financial services and yields like loans that are small, savings, micro leasing, micro insurance and transfer of money to give assistance to the poor that have been excluded in extending or starting their businesses.
Saving culture	The routine in which people use to do their savings in organization or in society.

ABSTRACT

Small and medium enterprises globally have donated to macroeconomic visions of nations and their development is important for markets that are competitive and competence, absorption of labor and produce. Some elements are supposed to be connected through working efficiencies and other segments interventions like formation of an enabling lawful and approach framework, facilitation of access to markets, investments of capital, offering trainings, development of infrastructure, building capacity, taxation and adaptations of technology in order to meet overall business objectives. The main objective of the study was to determine the effect of microfinance services on the financial performance of Small and medium enterprises in Kitui County. The specific objectives of the study were: to establish the effect of credit facilities on financial performance of SMES in Kitui County, Kenya, to determine the effects of saving culture on financial performance of SMES in Kitui County, Kenya and to determine the effects of financial literacy on financial performance of SMES in Kitui County, Kenya. The study used three theories namely; microfinance theory, games theory and poverty reduction theory. These theories try to explain whether microfinance has helped people in mostly providing jobs through the SMEs sector. This study will employ the use of descriptive design. This research employed the use of questionnaires as the method of getting information from the respondents that have been selected. The completed questionnaires were reviewed and edited for accuracy, competence and completeness. The response was coded and entries made into Statistical Package for Social Science (SPSS version 23). The inferential statistic was used to show the nature and magnitude of connections that was built between the independent, intervening and dependent variable using regression analysis. The study concluded that availability of credit facilities, saving culture and financial literacy have a positive and significant effect on the financial performance of SMEs in Kitui County. The study concluded that there were microfinance services available for SMEs in Kitui County and the SME owners were aware of them. The study concluded that to an average extent the performance of the enterprises had improved given the microfinance services available in the market. The study recommends that the SMEs should conduct due diligence, risk assessment and capacity before taking credit. The study recommended that the MFIs and other lenders should enhance capacity of the SMEs, improve their saving culture and financial literacy to enhance their financial management, awareness and ability to repay credit. .

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium enterprises globally have donated to macroeconomic visions of nations and their development is important for markets that are competitive and competence, absorption of labor and produce. Some elements are supposed to be connected through working efficiencies and other segments interventions like formation of an enabling lawful and approach framework, facilitation of access to markets, investments of capital, offering trainings, development of infrastructure, building capacity, taxation and adaptations of technology in order to meet overall business objectives. These segments are; costs, resources, labor and energy (Strøm, D'Espallier&Mersland, 2014).

According to the Consultative Group to Assist the Poor (CGAP), Microfinance Institutions (MFI) refers to a firm that gives financial services to those who are poor in the form of credit, savings and insurance. Microfinance on the other hand can be defined as the delivery of small-scale financial services to those people with low income (Robinson&Nair, 2001). There is provision of financial services to the poor in order to improve their livelihood and also their social services. These helps can lead to reduction of poverty. Different range of financial services are needed by those people that are living in poverty just like everyone else, in order to run their business, asset building, smooth consumption and also help them manage their risks (Lebovics, Hermes &Hudon, 2016).

There is an increase of profits on micro entrepreneurs who are in position to borrow and save with MFI. This is because there is lower rate of interest and access to properly designed products of loan. This will help them to improve their capability to accomplish working needs of capital through borrowing and savings at various times as needed (Amelec& Carmen, 2015).MFIs always have poverty easing as their main objective to those entrepreneurs that are potential. There will be reduction of poverty if those potential entrepreneurs will be aided to start their own business. This will lead to an increase in their income. Many MFIs refer to concentrate on the businesses that are in existence with a small portion of their collection that is invested in startup

businesses and hence decreasing the risk of prospect. In addition, entrepreneurs that are potential always need more than financial services. Most of them requires training skills or many other inputs in order to make their enterprises to perform well (Barry&Tacneng, 2014).

Microfinance in Kenya has shown resiliency despite local droughts and high rate of inflation that has distressed the economy in 2008 and 2009. The Government of Kenya and Central Bank of Kenya (2018) have been putting stress on the access to finances as a core to economy renovation. The area has been supported by approaches and innovating plans to financial services delivery. Deposit base that is huge with a well-developed MFIs in existence has permitted the expenses of financial and working to remain moderately low and also has led to some profitability measures that are high in the region (Widiarto&Emrouznejad, 2015).

Credit facilities is a kind of loan that is made in any business or company finance context, comprising rotating credit, loan terms, facilities that are committed, credit letters and accounts of credit retails. Financial literacy refers to the control over the set of skills and knowledge that permits a person to make informed and decisions that are effective with all their resources of finance. Saving culture refers to the routine in which people use to do their savings in organization or in society. Financial performance refers to the individual measure of how good an organization can utilize assets from its primary mode of business and produce revenues.

1.1.1MicrofinanceServices

The idea of micro-financing developed out of the need to offer to the low-income earners who are left out by the financial institutions that are formal. The practice of microcredit is reversed back to as early as 1700 and it can be drawn to Irish Loan Fund System that offered loans to poor people in rural without security. Over the years the idea of microfinance flourished to Latin America, then to Asia and later to Africa. The recent use of the appearance of micro-finance has its origins in the 1970s when firms like Grameen Bank of Bangladesh with the micro-finance pioneer Mohammad Yunus, were developing and taking different shapes in the modern organizations of microfinance (Quayes, 2015). In Kenya, the movement of micro-finance attained energy in the late 1980s as a result of barring of huge proportion of the population from the formal financial institution mostly banks. Microfinance arose with the purpose of filling the gap that was left by banks in offering credit to persons, micro, small and medium enterprises that were on the increase during the period (Bassem, 2014). In the early 1990s, during the opening of

the space in political and succeeding economic conflicts, there was increase need for credit by individual, micro, small and medium enterprises and this led to the gratitude of micro finance institutions in Kenya. Among the pioneer MFIs in Kenya are Equity Building Society (currently Equity Bank), Family Building Society (currently Family Bank), Faulu Kenya and KRep. In Kenya, MFIs have been built by the use of either NGO or SACCOs frameworks (Adhikary&Papachristou, 2014).

Farooq and Khan(2014) claim that MFIs have been vital sources of credit for a huge number of households with a low income and MSEs in both rural and urban areas of Kenya. MFIs attained fame in Kenya because of the fact that the official banking area since independence up to the late 2000 observed the official area as harm and not working commercially. MFIs advanced and provided new, innovative and modes that are poor of financing households that are poor and MSEs based on sound working principles. MFIs have contributed hugely to the social economic authorization to the beneficiaries since there beginning and their dependents (Abate, Borzaga&Getnet, 2014).

Microfinance according to Amelec and Carmen (2015) refers to the development segment that gives financial services and yields like loans that are small, savings, micro leasing, micro insurance and transfer of money to give assistance to the poor that have been excluded in extending or starting their businesses. MFI is mainly utilized in advancing economies where SME do not have access to other sources of financial help. Microfinance can also be defined as deliver of financial services to customers with low income including self-employed. Generally, financial services include savings and credit. On the other hand, most finance firms also offer insurance and services of payments. Most MFIs offer social intermediation services like formation of group, self-confidence development, financial literacy training and management capabilities among group members (Daher & Le Saout, 2015).

Activities of microfinance include; small loans normally for working capital, approval that is informal to borrowers and investments, security alternatives like guarantors of the group or savings that is compulsory, entrée to repeat and huge loans based or the performance of repayment, efficient loan repayments and monitoring and saving products that are secure. The services that are offered to customers by microfinance can be characterized into four various

categories. These are financial intermediation, enterprise development, social intermediation and social services.

Financial intermediation refers to the delivery of financial yields and services like savings, credit, insurance, credit cards and system of payment that should not need current aids. The process of developing human and social capital that is required by a sustainable financial intermediation for the poor according to Mori and Mersland, (2014) is called social intermediation.

Development of enterprise services helps micro entrepreneurs to embrace advancement of skills, training of business, marketing and technology. Social services concentrate on developing the welfare of micro entrepreneurs comprising education, health, nutrition and literacy training. The services need current help and are normally offered by NGOs or the state (Hulme&Maitrot, 2014). Characteristics of MFIs include; short term loans that are usually paid quickly after the approval that is always less than 12 months in most instances and are usually for working capital with immediate even weekly or monthly repayments. The requirements of the traditional lenders for physical security like property are normally replaced by a system of collective guarantee where members are jointly responsible for making sure that their loans are repaid (Kanyurhi&BugandwaMunguAkonkwa, 2016).

1.1.2 Financial Performance

Microfinance is the suitable segment to decrease the variation of income, permitting citizens from socio-economic classes that are lower to join in the economy. In addition, its participation has revealed to lead a downward trend in the income. On the other hand, microfinance cannot eliminate poverty on its own. The two main devices for the distribution of financial services to customers like those are connection-based banking for specific entrepreneurs and small businesses and group-based concepts, where various entrepreneurs come together to apply for loans and other different services as a group (Kar & Swain, 2014). Microfinance credit can act an essential role in the growth of economy. Banks and lending institutions offer the services that permit people to save and invest assets and services that are available that can be used to support the activities of the economy. The role of the microfinance institutions in the underdeveloped communities is to offer the access of credit and financial services that are needed to advance business earning income (Forcella&Hudon, 2016).

Many programs on microfinance utilize some form of group lending schemes like peer selection and monitoring, consistent public repayments and mutual liability. with lending grouping outlines, clearly utilizes mutual liability but it applies to any act that implies some peer screening, monitoring and implementation (Chiu, 2014). Individual borrowers under mutual liability have to form groups in order to apply and all group members will be held responsible for the settlement of the debts of each other (Nurmakhanova, Kretschmar & Fedhila, 2015).

1.1.3 SMEs in Kitui County

SMEs are vital sub segment for the economic sector in Kenya like most developing countries since it offers jobs to about 85% of the Kenyan workforce. This is almost 7.5 million Kenyans of the present total employment. The present framework of the constitution and the new SME Act 2012 (MSE Act 2012) offers a new window of chance through which the development of SMEs can be discovered through the devolution framework. On the other hand, the results of devolution on the advancement of SMEs depends on the architecture framework of the regulator and institutions motivated to provide support to SMEs in an economy (Hermes, 2014).

Kitui County is one of the counties that grows faster in Kenya. The county is divided into 8 sub counties. These sub counties are: Kitui West Sub-County, Kitui Central Sub-County, Kitui Rural Sub-County, Kitui South Sub-County, Kitui East Sub-County, Mwingi North Sub-County, Mwingi West Sub-County and Mwingi Central Sub-County. Moreover, the sub counties are divided into smaller units referred to as wards. Kitui County has 40 wards that are divided further into 247 villages. Agriculture is the backbone and livelihood of the people of Kitui County. However, being a largely metropolitan county, SMEs are coming up in other sectors like: trade and commercial services, financial services and construction.

1.2 Statement of the Problem

People who need financial yields and services to develop assets alleviate consumption and shield themselves against harm. Microfinance is the impression that people with a low income are able to lift themselves out of poverty if given access to financial services. The government of Kenya provides support to the SME sector as a way of offering jobs to the youths. Hence, the subject of the business development is a fascinating area for a research in the context of Kenya. SMEs cut

across all the areas of the economy, offering a prolific source of employment, income and the revenue from the government and the reduction of poverty. The segment includes a big percentage of all the businesses in the country that provides to approximately 4 million people with jobs. This sector offers goods and services, promote competition, innovation and enterprise culture and also offers chances for the growing of suitable technological and managerial efficiency.

Many SMEs in Kenya are faced with problems in accessing credit facilities from financial institutions because of their assets that are limited. This however hampers the growth and extension of these SMEs leading to poor performance of SMEs. Accessing to credit facilities is one of the core problems towards the development of SMEs in Kitui county and these SMEs are major source of employment to people who stays in that county. This issue is supposed to addressed thoroughly. Despite the serious role that SMEs play in the growth of economy, many people start their working while undercapitalized. In the first few months of the starting of the business working In Kitui County, one out of four businesses fail because of inadequate finance and management that is poor in the business. This study suggests that financial support should be improved to support SMEs. This will ensure there is a maintainable growth and survival of these businesses.

Various studies have been done on SMEs and how they are influenced by microfinance services. For instance; Omondi and Jagongo (2018) conducted a study on microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. Kamunge, Njeru and Tirimba (2014) studied factors affecting the performance of small and micro enterprises in Limuru Town Market of Kiambu County, Kenya. Matiang'I (2016) conducted a study the effect of microfinance services on financial performance of Small and Medium Enterprises in Kawangware, Nairobi County. Ondoro and Omena (2015) studied effect of microfinance services on the financial empowerment of youth in Migori County, Kenya.

No study had focused on the effects of microfinance services and financial performance of SMEs in Kitui County. The researcher felt that there was need for a study on this area and thus this study intended to bridge this gap and focus on the effects of microfinance services and financial performance of SMEs in Kitui County.

1.3 Objectives of the Study

1.1.1 General Objective

To determine the effect of microfinance services on the financial performance of Small and medium enterprises in Kitui County, Kenya

1.1.2 Specific Objectives

- i. To establish the effect of credit facilities on financial performance of small and medium enterprises in Kitui County, Kenya
- ii. To determine the effects of saving culture on financial performance of small and medium enterprises in Kitui County, Kenya
- iii. To determine the effects of financial literacy on financial performance of small and medium enterprises in Kitui County, Kenya

1.4 Research Questions

This study was guided by the following questions:

- i. What is the effect of credit facilities on financial performance of small and medium enterprises in Kitui County, Kenya?
- ii. What is the influence of saving culture on financial performance of small and medium enterprises in Kitui County, Kenya?
- iii. What is the effect of financial literacy on financial performance of small and medium enterprises in Kitui County, Kenya?

1.5 Significance of the Study

This research will be of benefit to the body of knowledge on the influence of microfinance credit on the financial performance of SMEs in Kitui County as a whole. The study will help other researchers and academicians who may see it important in offering information on the SMEs of microcredit financing on financial performance of SMEs in Kitui County. The research is also important to researchers as it offers basis upon which further studies can be conducted on wide subject's microcredit financing of SMEs. The study is required to give some light on the connection between microfinance services and financial performance of SMEs. By doing this, it will help some important parties to provide better and substitute approaches to address possible problems and challenges that SMEs are facing. This study will also provide empirical sign on the results of the micro credit on the financial performance of SMEs for use in short term and long-term interventions particularly in the battle of fighting poverty.

This study is also very important since it is going to enlighten the government and the public on the role of Microfinance services in the SMEs sector. It will provide information to the Microfinance Institutions on the extent to which their credit to the SMEs affect the business with main regard to improving the social welfare. It will be equally important the small and medium entrepreneur by providing more knowledge on equity sourcing through MFIs and develop saving skills for business. A study like this is helpful to the government in policy making on financing of small and medium enterprises through microfinance and other financial institutions. This includes the best ways to be used to finance the SMEs sector by microfinance institutions.

1.6 Scope of the Study

This study sought to determine the influence of microfinance services and financial performance of SMES in Kitui County, Kenya. This study was directed by the following objectives: to establish the effect of credit facilities on financial performance of SMES in Kitui County, Kenya, to determine the effects of saving culture on financial performance of SMES in Kitui County, Kenya and to determine the effects of financial literacy on financial performance of SMES in Kitui County, Kenya.

1.7 Limitation of the Study

The study was limited to the effect of microfinance credit on the financial performance of SME in Kitui County. A large research would be the best for findings to be comprehensive. Some of the respondents however, were afraid of giving information that is serious because they felt they were exposing the firm's weakness or they felt they would be victimized. Moreover, the respondents assured them of handling of the information that gave with utmost confidentiality. On the other hand, financial problems by the researcher in terms of photocopying, cost on transport, secretarial services etc.

1.8 Organization of the Study

This study was planned into five chapters. Section one deals with the background of the research, statement of the problem, study objectives, study questions, significance of the research scope of the research, limitations and the organization of the study. Section two covers the theoretical and empirical literature on the study topic, summary of the literature review and research gaps and

the conceptual framework. Chapter three covers research design, target population, data collection and analysis and ethical consideration. Chapter four presents the study findings and discussions while chapter five details the summary of research findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter put its focus on the theories that will be used in the study. It provides a summary of the information from other philosophers that have done their research in the same field of the research. The chapter covers the model review, empirical review, and the conceptual framework.

2.2 Theoretical Review

This study looks into three main theories that try to explain the impact of microfinance services on SMEs. These include microfinance credit theory, games theory and poverty reduction technique theory.

2.2.1 Microfinance Credit Theory

In Kenya, microfinance is now independent sector. Karlan and Zinman (2011) drew the history of MFIs in Kenya to the mid-150 when the mutual Loan Board Scheme was built to offer credit to native Kenyans with small trading business loans. In Kenya, the microfinance sector has advanced since its start in 1970s. Microfinance segment is one of the most developed in Africa (Hulme, 2000). The birth of particular microfinance in Kenya was in the 1980s when Kenya Rural Enterprises Fund (K-REP) and the Kenya Women Finance Trust (KWFT) were developed. In 1990s there was establishment of more MFIs. 15 more MFIs like Faulu Kenya, Small and Medium Enterprise Program commonly known as SMEP and Jamii Bora developed.

The idea of lending groups is commonly seen as the core innovation of microfinance and claims to offer feedback to the shortcomings of damaged credit markets, specifically to the challenge of overcoming information and irregularities. Irregularities of information may lead to the different phenomena of hostile selection and moral risk. In the case where there is adverse selection, the lender may lack information on the riskiness of its borrowers. Borrowers that are more risk are most likely to default than borrowers who are safer hence they should be charged interest rates that are high to reimburse for the grown risk of default (Banerjee, Karlan&Zinman, 2015). The standard idea of lending usually contains two acts that address the problem of information

irregularities: assortative matching or screening to deal with adverse selection, and peer monitoring to overcome moral hazard.

2.2.2 Games Theory

This model is based on Grameen lending model of microfinance that is based on group peer pressure whereby loans are given to individual groups of four to seven. The microfinance games model also support the mechanisms of group lending among micro finance institutions. Many of the new acts depend on groups of borrowers to mutually monitor and enforce contracts themselves. Group members jointly guarantee loan repayments and access to succeeding loans is dependent on successful repayment by all the members of the group. This payment is normally made on a weekly basis (Morris & Shin, 2001).

The groups have shown effective in preventing defaults as showed by loan repayments rates gained by firms such as Grameen Bank (Bangladesh) that utilizes this kind of microfinance concept. This model has also donated to wider social benefits because of their joint trust arrangement at the heart of group guarantee system and the group itself always becomes the developing block to a wider social network (Dutta & Dutta, 1999). Group based act however tend to be weak to free riding and involvement. In Kenya, most MFIs put very competitive rates for people is chamas to be able to obtain loans from them. However, these rates for those who borrow collectively as a group and invest in it. It also encourages them to save with the MFIs.

2.2.3Poverty Reduction Technique Theory

The pressing need for growing economy is to create jobs for the large unemployed and under employed labor force. This is mainly brought about by discrepancies between the large number of educated professionals and a smaller number of jobs to accommodate them. Studies have been conducted to look into such issues. They have ended up arguing that jobs creation can be done either by generating wage employment or by promoting self-employment (Bowen, 2006).

Microfinance could be used as a major way to promoting self-employment. This is mainly through provision of financial services to the small startups that end up providing jobs to many other people. Several authors have looked at its suitability to accomplish this, and most have agreed that microfinance alone cannot be used as such a tool. For it to be effective, it has to be coupled up with other factors to ensure positive results. This study looks at microfinance as a

tool to reduce poverty levels to the people of Kitui County. Thus, it tries to answer whether microfinance has helped these people in mostly providing jobs through the SMEs sector(Ogun, 2010).

2.3 Empirical Review

2.3.1 Credit Facilities and Financial Performance

Alshatti(2015) conducted a study on the effect of credit risk management on financial performance of the Jordanian commercial banks. This research recommended that banks should improve their credit risk management to attain more profits, so that banks should consider the indicators of performing loans, provision for facilities loss and the leverage ratio that are seen to be important in discovering credit risk management. The study further suggested that banks should build credit risk management approaches that is adequate by introducing firm credit estimation before providing loans to clients and banks in scheming credit risk management that is effective that need to develop an appropriate credit risk environment, working under a process of granting credit, upholding a suitable credit management that includes monitoring, processing and also adequate control over credit risk and banks are supposed to put and plan approaches that will limit banks exposition to credit risk and advance performance and competitiveness of the banks.

Mumi (2014) studied on impact of credit referencing practices on lending in financial institutions. The results revealed that their banks reviewed their credit referencing plan half annually. This research concluded that the information system concerning referencing were inadequate thus affected market segmentation and referencing of the credit. The process of credit referencing showed that banks reviewed their credit referencing plan half annually. The research recommended that financial organization should accept information sharing systems on referencing of the credit. Sharing of the information is believed to be vital to progress the performance of credit market. The department of the credit moreover should make sure that the referencing process is reviewed occasionally. This will make sure accuracy, competence and effectiveness of the rating associated with lending facility.

Gachuhi (2016) conducted a study on the relationship between credit information sharing and financial performance of deposit taking microfinance's in Kenya. The research revealed that the

sharing of credit information and competence management has insignificant negative relation with the performance of DTMs in financial perspective and that the size and risks of credit have a positive but insignificant connection with the performance of DTMs' in perspective. The study concluded an existence of an inverse relation between credit information sharing and DTMs' performance in financial perspective. The study also concluded that there is a direct relation between size, credit risk and performance in financial perspective that there is an adverse effect between poor management and DTMs' performance in financial perspective. The study recommended that managers of Deposit Taking Microfinance's should ensure that they invest more resources in credit information sharing. The study also recommended that the manager of deposit taking microfinances should institute effective credit management and control strategies to ensure that they mitigate the effects of credit risk.

Kisaka (2015) conducted a study on effect of credit rating practices on loan book performance of commercial banks in Kenya. According to the findings, there was a positive connection between practices of credit rating and performance of the loan book in Kenyan commercial banks. The research concluded that credit rating is an analyst of loan book performance of commercial banks in Kenya. This study recommended that the commercial banks management should put stress on the use of credit rating practices to decrease on the default rate. The project further recommended that banks are supposed to offer credit products that are unique to their clients by becoming sensitive to the general economic condition that is prevailing in order to attain long term sustainability since the clients have an important duty in discovering the success of the banks.

Munee (2016) studied effect of credit information sharing on the financial performance of commercial banks in Kenya. The study recognized an irrelevant negative relation between credit information sharing assets quality and the performance in the financial perspective. The findings also established a negative relation which was important between capital competence and the financial performance and an irrelevant positive relation between liquidity and the performance of banks in perspective of finance. This research concluded that in case there is failure in sharing credit information there will be an increase in credit risk that will in turn cut the performance of banks on the perspective of finance. The study recommended that administration of the Kenyan commercial banks should set up mechanism that is appropriate to share the information on credit in order to cut credit risk and improve the performance in financial perspective.

Nyamis (2014) conducted a study on the effect of credit risk management on the financial performance of Deposit Taking Micro-Finance Institutions in Kenya. The study findings revealed that there is a strong credit information sharing that is important to personal prosperity and also to the overall growth of the country. The study recognized that financial performance is rated with credit information sharing of credit with the final causing the former. The study further recommended that a system needs to be improved in order to allow financial institutions as well as those that are not banks entities retailers, telecom and value organizations to access to credit history of borrowers so as to understand the kind of customers to serve and what difference to charge to protect risks.

Gatuhu (2014) conducted a study on the effect of credit management on the financial performance of microfinance institutions in Kenya. The study revealed that customer appraisal, credit risk control and policy collection affected financial performance of MFIs in Kenya. The study further established that there was a connection that was strong between financial performance of MFIs and customer appraisal, credit risk control and the policy collection had an important effect on the financial performance of MFIs in Kenya. Policy collection was seen to have a huge influence on financial performance and that a severe plan is more influential in recovery of debt than a plan that is lenient. The study recommended that MFIs need to improve their policy of collection by adapting a stricter plan to a lenient plan for influential debt recovery.

2.3.2 Saving Culture and Financial Facilities

Munanda (2017) conducted a study on savings among the youth in the banking sector using a case of Standard Chartered Bank Kenya Limited. The study realized relatively poor savings habits among the youth with many of them accepting responsibility for indiscipline in inculcating consistent savings habits. Solutions to the challenged of savings among the youth are sighted satisfying the objective of the study. Young people need to be educated to see a bigger picture of life beyond the consumerism culture. They need education on the impact of failing to save for their future. There is also a need to create employment opportunities for the youth and offer better income packages that can guarantee them the freedom to be in charge of their future live. The study recommended that Banks and other saving facilities like mutual funds and SACCOS need to continually be structured to favor and encompass the efforts of the youth.

Mbagga, (2015) conducted a study on the role of saving and credit cooperative societies (SACCOS) in poverty reduction: evidence from Same district. The study established that embracing cooperative societies can bring immense benefits to individuals and the entire community as a whole. The study therefore concluded that ignoring the role of Sacco's as a financial intermediary in this modern environment will be detrimental in the economic development of any economy due to the immense financial resources that Sacco's currently control and the ever-increasing membership day by day in the formal and informal sectors of the economy.

Daud (2015) studied on the effect of member demographics on the savings and investment of individuals in SACCOs registered by SASRA. The result implies that a change in marital status will affect the average savings. The study also revealed that there exists a correlation between members' education level and household size as well as age of individuals in Savings and Credit Cooperatives. It was also found that monthly income has no direct correlation with the savings and investment behavior of members. The researcher recommends nurturing of marriage institution and increase trainings for members on financial management as a way of enhancing saving culture members of the SACCOs.

Ng'ang'a (2014) conducted a study on the mobile banking effects on saving culture using Molo Town residents as a case study. The study found out that mobile banking influence on the saving culture among residents of Molo town. In addition, the findings were discovered that they can contribute to mobile banking services improvement. The study also revealed that the variables in the equation influence on the average amount saved in $p < 0.05$ phone since. Hence the conclusion that mobile banking has an effect on the saving culture.

2.3.3 Financial Literacy and Financial Performance

Hinga (2014) studied on the relationship between financial literacy and individual savings of employees of postal corporation of Kenya based in Nairobi. The study adopted a descriptive survey research design and descriptive statistics for analysis. The findings of the study revealed that financial literacy greatly impact on individual savings. The study recommended that there should be adoption of policies by the government that address financial literacy training programs on individual savings for employees in addition, it was also recommended that there

should be variety of financial literacy training programs and program providers appointed who will offer comprehensive training on individual savings such as Sacco and bank savings, insurance plans, pension plan and general personal finance.

Chamwada (2015) conducted a study on the effect of financial literacy on financial performance of small and micro enterprises in Kibera Slums, Nairobi County. The findings of the study revealed that the level of financial literacy was low among the SME owners. Further, it was found that the size of a firm and financial literacy influences positively on the financial performance while on the other hand, on influence of the amount of capital invested it is insignificant. The study recommended that the County government should instill financial literacy knowledge to SMEs as it results to an improved financial performance of the SMEs.

Ibrahim (2017) studied the impact of financial literacy on the profitability of micro and small enterprises owned by university students in Kenya: A Case Study of United States International University-Africa. The study reveals that the business owners are neutral on aspects of time orientation being long-term and the influence of social environment on money management skills. The study also found that majority of the business owners do not believe in risk prevention as a way of ensuring security of their businesses and they do not have the attitude of attempting to acquire more financial skills through training programs. The study established that there is a meaningful relationship between profitability and financial attitude of micro and small enterprise owners. The study recommends financial education and training programs by the government along with other institutions that will encourage application of financial knowledge on activities of business owners.

Otieno (2016) studied on financial literacy influence and financial performance of SMEs in Ruiru town, Kenya. The analysis results revealed that there is a significant positive relationship between financial literacy and financial performance of SMEs. This led to a conclusion that high levels of financial literacy among SME owners resulted to a higher financial performance of SMEs. The study recommended that awareness be created to the SMEs on the importance of being financially literate by encouraging them to participate in financial literacy training programme and also for the trainers to consider including ICT as one of units on which participants will be trained.

2.3.4 Financial Performance

Omondi and Muturi (2015) conducted a study on factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya. The results of the study indicated that financial leverage had an important negative connection with financial performance while the size of the organization had a connection that was positive and insignificant with financial performance and liquidity had an important connection that was positive with financial performance of non-financial organizations that are listed at the NSE. This study concluded that financial leverage has a contrary influence on financial performance while an organization size enhances the financial performance and liquidity enhances the financial performance of the listed non-financial organizations. The study recommended that the administration of the non-financial firms listed at the NSE should employ minimal debt level or use an optimal debt level and focus on growing their firms to ensure that they enjoy the economies of scale associated with large firms, also to attract good management thus to improve their financial performance.

Gitau (2014) studied on the relationship between financial innovation and financial performance of commercial banks in Kenya. The study established that there is a weak positive and significant relationship between financial innovation and financial performance (ROA). The relationship between financial innovation capital adequacy financial performance was found to be positively weak and significant. Interest on loans was found to have a very strong positive relationship with financial performance since it's the main source of revenue. Firm size had a very weak adverse association with financial performance. Based on the study findings, the study also concluded that the relationship between financial innovation, capital adequacy interest on loan and financial performance is positive and significant. But a negative effect on firm size and financial performance. The study concludes that the adoption of financial innovations by MFIs in Kenya has resulted in improved performance over the years.

Ochanda (2014) conducted a study on effect of financial deepening on growth of small and medium-sized enterprises in Kenya: A case of Nairobi County. The findings indicated that financial innovations and credit accessibility explain a large part of the variation in the financial institutions' return on assets; these two variables explain up to 39% of the variation in performance. Financial innovation and credit accessibility have a significant effect on the return on assets of financial institutions. Financial institutions that maintain high levels of investment in

innovation have been able to exploit emerging market opportunities. Some opportunities allow for the reduction in the costs of operations, while others make it possible for financial institutions to serve their customers in new ways, or to meet needs that the market has not met before. The findings recommend that financial institutions should increase their investment in activities that spur financial innovation. High investment in financial innovation will allow the financial institutions to serve their customers better, or to reach new market segments that have unmet needs.

Akun (2016) studied on the effect of financial derivatives on the financial performance of commercial banks in Kenya. The findings of the study indicated that there is an insignificant relationship between the financial performance (ROA) of commercial banks in Kenya and financial derivatives. Additionally, the negative nature of the relationship means that a unit change(increase) in financial derivatives will result to a decrease in financial performance of commercial banks in Kenya. Consequently, therefore, financial derivatives should be properly used in a manner that is instrumental to the goal of a sound and safe banking system in Kenya.

2.4 Summary of Empirical Review

Table 2. 1 Summary of Research Gap

Author	Topic	Findings	Gap
Mumi (2014)	impact of credit referencing practices on lending in financial institutions	majority indicated that their banks reviewed their credit referencing policy half yearly.	this study was done on banks and not on SMES
Gachuhi (2016)	relationship between credit information sharing and financial performance of deposit taking microfinance's in Kenya.	The study found that credit information sharing and management efficiency has insignificant negative relation with DTMs' performance in financial perspective and that size, and credit risks have a positive but insignificant relationship with DTMs' performance in financial perspective	This study was done on deposit taking microfinances and not on SMES
Munanda (2017)	savings among the youth in the banking sector: A Case Study of Standard Chartered Bank Kenya Limited	The study realized relatively poor savings habits among the youth with many of them accepting responsibility for indiscipline in inculcating consistent savings habits.	the study was done on standard chartered bank and not on SMES hence its findings may not be compatible in our current study
Ng'ang'a (2014)	effect of mobile banking on saving culture-A Case of Residents of Molo	The studies found out that indeed mobile banking had had a huge effect on the saving	The study was done in Molo town and not in Kitui county therefore its findings may not be

	Town.	culture among residents of Molo town	compatible in our current study
Hinga (2014)	relationship of financial literacy on individual savings of employees of postal corporation of Kenya based in Nairobi.	The study findings concluded that financial literacy impacts to a great extent on individual savings.	The study was done on employees of postal corporation based in Nairobi hence the findings may not be compatible in our current study
Chamwada (2015)	effect of financial literacy on financial performance of small and micro enterprises in Kibera Slums, Nairobi County.	The study found that financial literacy levels remained low among the SME owners.	This study was carried out in Kibera slums and not in Kitui county
Omondi and Muturi (2015)	factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya	The study found that financial leverage had a significant negative relationship with financial performance while firm size had positive and insignificant relationship with financial performance and liquidity had a significant positive relationship with financial performance of non-financial firms listed at the NSE.	The study was done on listed companies at the Nairobi securities exchange and not on SMES
Ochanda (2014)	effect of financial deepening on growth of	The findings indicated that financial	The study was done in Nairobi and not in Kitui

	<p>small and medium-sized enterprises in Kenya: A case of Nairobi County</p>	<p>innovations and credit accessibility explain a large part of the variation in the financial institutions' return on assets; these two variables explain up to 39% of the variation in performance.</p>	<p>county</p>
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2.5 Conceptual Framework

A conceptual framework is concept of connection where authors present the connection between variables in a research and show the connection graphically or dramatically. It gives ideas of the variables to be covered by the research. The independent variables were credit facilities, saving culture and financial literacy. The depended variable was financial performance.

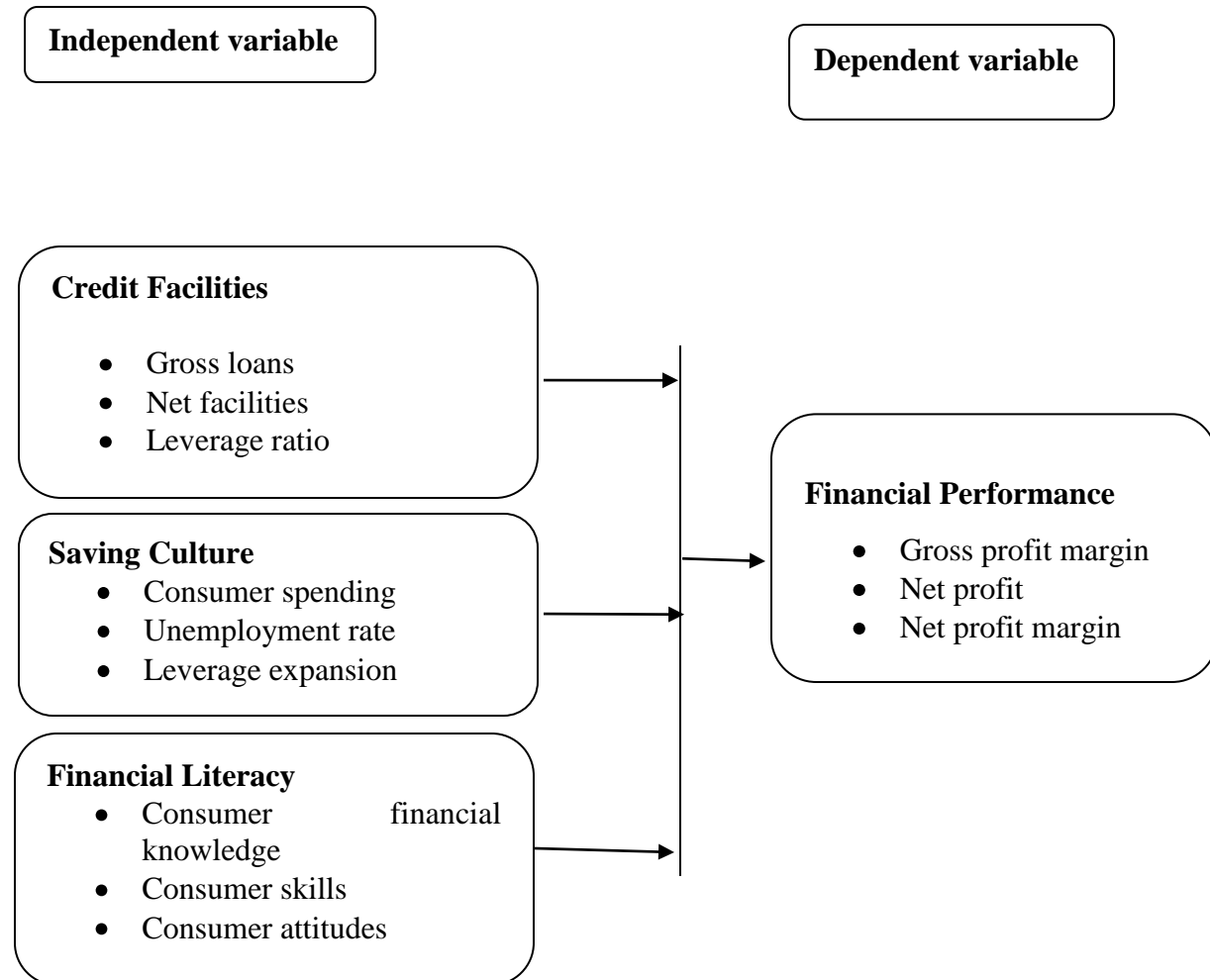


Figure 2. 1 Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section covers a systematic discussion on the study plans that was adopted in creating the influence of microfinance services on financial performance of SMEs in Kitui county. The section covers the study methodology under the following subdivisions: the research design that the study adopted, the target population, sampling procedure and sample size, study instruments, validity and reliability, data analysis procedures and the ethical considerations.

3.2 Research Design

This research employed descriptive design. Creswell and Creswell (2017) describe research design as a general plan in data collection necessary for the fulfillment of research objectives. A descriptive design is a type of descriptive study in which data is analyzed at a specific point of time. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Creswell & Poth, 2017). This approach was appropriate for this study since the researcher intended to collect detailed information through descriptions and was useful for identifying variables and hypothetical constructs. It enabled the researcher to present data in an easy and meaningful way

3.3 Target Population

Population refers to an entire group of individuals, events or objects having a common observable characteristic (Wang, 2015). According to the ministry of National Trade Policy (2018), there are 1,679 licensed SMES in Kitui County in different sectors that include trade and commercial services, financial services and construction. The study focused on the owners and staff of these SMES.

3.4 Sample Size and Sampling Techniques

The research applied stratified random sampling technique. According to Lewis (2015), a sample refers to a small group obtained from the accessible. A target of 70 SMEs was studied.

3.5 Data Collection Instruments

This involves the elements that were utilized for collecting data and how those tools were advanced. This research employed the use of questionnaires as the method of getting information from the respondents that have been selected. These questionnaires were directed by the nature of data that is supposed to be collected, availability of time and the objectives of the research.

Primary data was used to collect information in Kitui County. The questionnaires comprised both open and closed ended designs to provoke particular responses for qualitative analysis. These questionnaires were managed throughout the process of drop and pick later.

Enough time was given to the respondents to provide feedback to the questions and they used semi structured questionnaires to evade misunderstanding or interpretation. This questionnaire used a five-point Likert scale namely Strongly disagree (SD), Disagree (D), Undecided (U), Agree (A) and Strongly Agree (SA) that was allocated scores of between 1 and 5. This gave allowance to the researcher to draw decisions based on the judgements that would have been made from the responses. The use of questionnaires was preferable to the researcher because a lot of information was gathered over a very short period of time.

3.6 Data Collection Procedures

Data collection procedures are strategies employed in research to ensure credible, valid and reliable data is obtained to inform the research findings (Wang, 2015). Before field visits for data collection the researcher applied for a permit from the National Commission for Science, Technology and Innovation (NACOSTI), to conduct the research and also requested an approval from the institution. After receiving the approval, the researcher contacted the respondents and dropped the questionnaires attached with a cover letter. The research administered the questionnaires individually to all the respondents. The research exercised care and control and made sure all the questionnaires that were issued to respondents, received and achieved, the study maintained a register of the questionnaires that were sent and received.

3.7 Reliability and Validity of Instruments

3.7.1 Reliability of Instruments

Yin (2017) defines reliability as the extent to which your data collection techniques or analysis procedures will yield consistent findings. Lewis (2015) claims that reliability focuses with the reliability of measures the level of reliability instrument is depended on its capability to yield the same score when they are utilized repeatedly. The questionnaires that were utilized for the purpose of this study were designed by a panel of experts at the organization. This study also used the test re test technique to discover the reliability. The core resolution of the test re-test research is to check on the appropriateness and the simplicity of the questions on the objects that

were designed, significance of the information that were sought, the language that was utilized and the content of the validity of the objects from the response given.

3.7.2 Validity of Instruments

Wang (2015) states that validity is when an object truly measures what it was meant to measure, given the situation in which it is used. The questionnaires were presented to the supervisor of the organization for security and advice in order to discover satisfied and validity face. The impressions and contents of the objects were enhanced on the advice of the lecturer and remarks. The questionnaires were then created in a way that related to each question. This made sure that all the study questions were enclosed. The questionnaires that were used in the study were then given the depended experts in discussion with the statistician to examine it for face and validity content as well as for conceptual simplicity and analytical bias. When information that was collected through the questionnaires was being used, there was emphasis that there were no cumulative scores that were utilized for purpose of clarification but only the feedback to the individual items in the questionnaire. A pretest is an experiment that ran to discover if an object solicits the kind of information that was planned by the philosopher (Wang, 2015).

3.8 Data Analysis and Presentation

The completed questionnaires were reviewed and edited for accuracy, competence and completeness. The responses were coded and entries made into Statistical Package for Social Science (SPSS version 23). Regression and correlation analysis were applied to show the relationship between variables. The data was analyzed and presented in charts and tables. The inferential statistic was used to show the nature and magnitude of connections that were built between the independent, intervening and dependent variable using regression analysis.

The following regression model was applied:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + \beta_{14} X_{14} + \beta_{15} X_{15} + \beta_{16} X_{16} + \beta_{17} X_{17} + \beta_{18} X_{18} + \beta_{19} X_{19} + \beta_{20} X_{20} + \beta_{21} X_{21} + \beta_{22} X_{22} + \beta_{23} X_{23} + \beta_{24} X_{24} + \beta_{25} X_{25} + \beta_{26} X_{26} + \beta_{27} X_{27} + \beta_{28} X_{28} + \beta_{29} X_{29} + \beta_{30} X_{30} + \beta_{31} X_{31} + \beta_{32} X_{32} + \beta_{33} X_{33} + \beta_{34} X_{34} + \beta_{35} X_{35} + \beta_{36} X_{36} + \beta_{37} X_{37} + \beta_{38} X_{38} + \beta_{39} X_{39} + \beta_{40} X_{40} + \beta_{41} X_{41} + \beta_{42} X_{42} + \beta_{43} X_{43} + \beta_{44} X_{44} + \beta_{45} X_{45} + \beta_{46} X_{46} + \beta_{47} X_{47} + \beta_{48} X_{48} + \beta_{49} X_{49} + \beta_{50} X_{50} + \beta_{51} X_{51} + \beta_{52} X_{52} 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ε = error term.

3.9 Ethical Considerations

The author got a letter of introduction and authority from the institution giving the main objective of the study and how the study retained the privacy and confidentiality of the information that was collected from the respondents. The main purpose, the duration expectation of the participation and the advantages of the study were explained to all the participants in advance.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study using primary data that was collected through semi-structured questionnaires that were administered to the respondents. The collected data was coded into SPSS Version 23.0 for analysis and presentation. The findings were presented in form of figures, percentages, means, standard deviations and tables.

4.1.1 Response Rate

A total of 70 questionnaires were administered to owners and staff among the registered SMEs in Kitui County. 60 questionnaires were dully filed and returned to the researcher and gave a response rate of 85.71%. This was deemed sufficient for the study. The findings are shown in Figure 4.1.

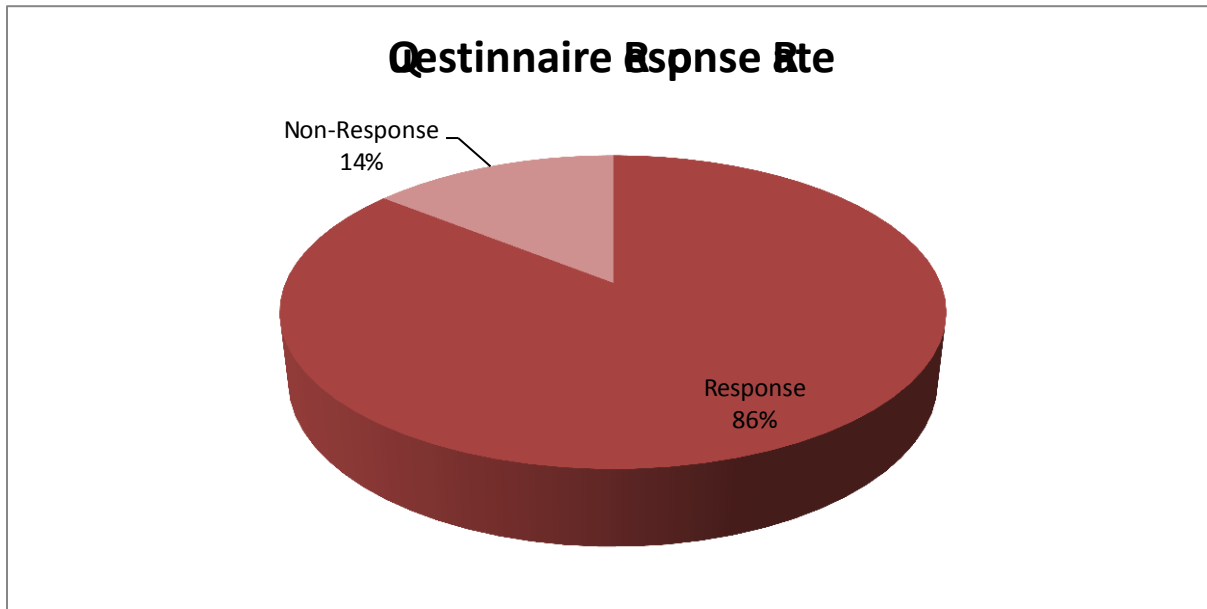


Figure 4.1: Questionnaire Response rate

Source: Field data, 2019

The findings show that the study had a response rate of 86% an indication that response rate was statistically sufficient for the study. This is supported by Mugenda (2013) who stated that a response rate of 70% and above is deemed sufficient for the study.

4.1.2 Reliability Test

The reliability of the research instruments was tested by use of pilot test. The researcher computed Cronbach alpha coefficient, the findings are as shown in Table 4.1.

Table 4.1: Reliability Test

Variable	Number of Coefficient	Cronbach Alpha
Credit facilities	5	0.781
Saving culture	5	0.813
Financial Literacy	5	0.825
Average Cronbach Coefficient		0.806

Source: Field data, 2018

The study pointed out that credit facilities had a Cronbach alpha coefficient of 0.781, saving culture had a Cronbach alpha coefficient of 0.813 and financial literacy had a Cronbach alpha coefficient of 0.825. From the findings, all the variables had a Cronbach alpha coefficient of 0.7 and above with the average coefficient being 0.806, this shows that the research instruments were reliable in data collection. The findings are supported by Cronbach (1950) who established that a Cronbach alpha of above 0.7 is deemed sufficient for the study.

4.2 Demographic Information

The researcher asked respondents to indicate their general information regarding background of the respondents and their SMEs ranging from age, highest academic qualification of the respondents to the period worked or run the enterprises. This was to establish respondent's appropriateness in the study. The findings were as indicated in the subsequent sections.

4.2.1 Age of Respondents

The study assessed the age bracket of the respondents. The findings were as tabulated below;

Table 4.2: Respondents' Age

Age Bracket	Frequency	Percentage
Below 20 years	4	06.67
20-30 years	15	25.00
31-40 years	21	35.00
41-50 years	11	18.33
Above 50 years	9	15.00
Total	60	100.00

Source: Field data, 2019

The study established that 6.67% of the respondents were below 20 years, 25% were between 20 and 30 years, 35% were between 31 and 40 years, 18.33% were between 41 and 50 years while 15% were above 50 years. This indicates that most of the respondents were more than 20 years old. This shows that the owners and staff among the SMEs in Kitui County were mature and experienced to run their enterprises.

4.2.2 Highest Academic Level

The study further sought to establish the highest academic level among the respondents. The findings were as presented in the chart below;

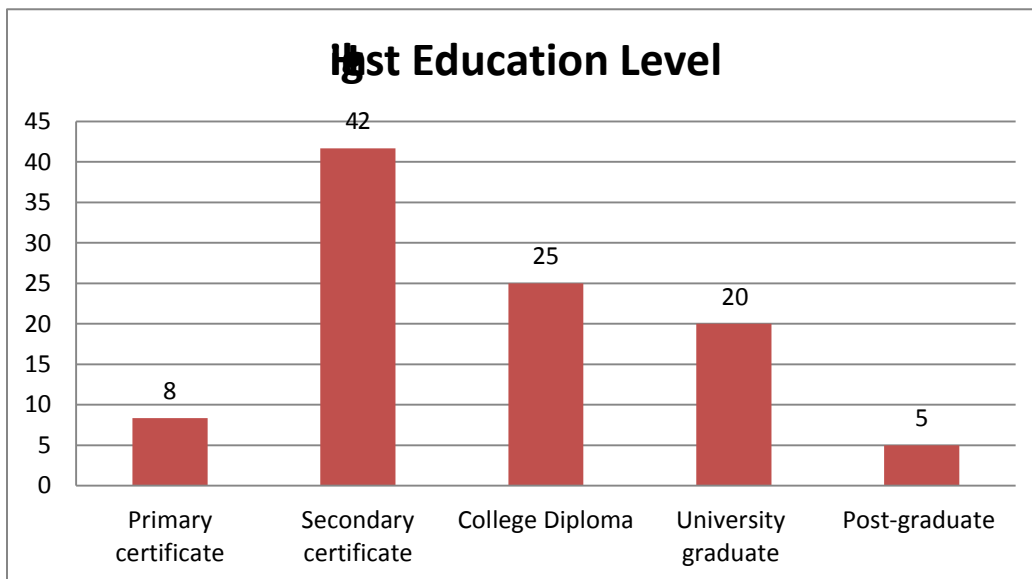


Figure 4.2: Highest academic level

Source: Field data, 2019

The study established that 8% of the respondents were primary school graduates, 42% were secondary school certificate holders, 25% were college diploma graduates, 20% were university graduate while 5% had post graduate qualifications. This indicates that most of the owners and staff among SMEs in Kitui County were secondary school graduates. This shows that most of the entrepreneurs had average level of education.

4.2.3 Period worked

The study further assessed the number of years the respondents had run or worked among the small and medium enterprises in Kitui County, Kenya.

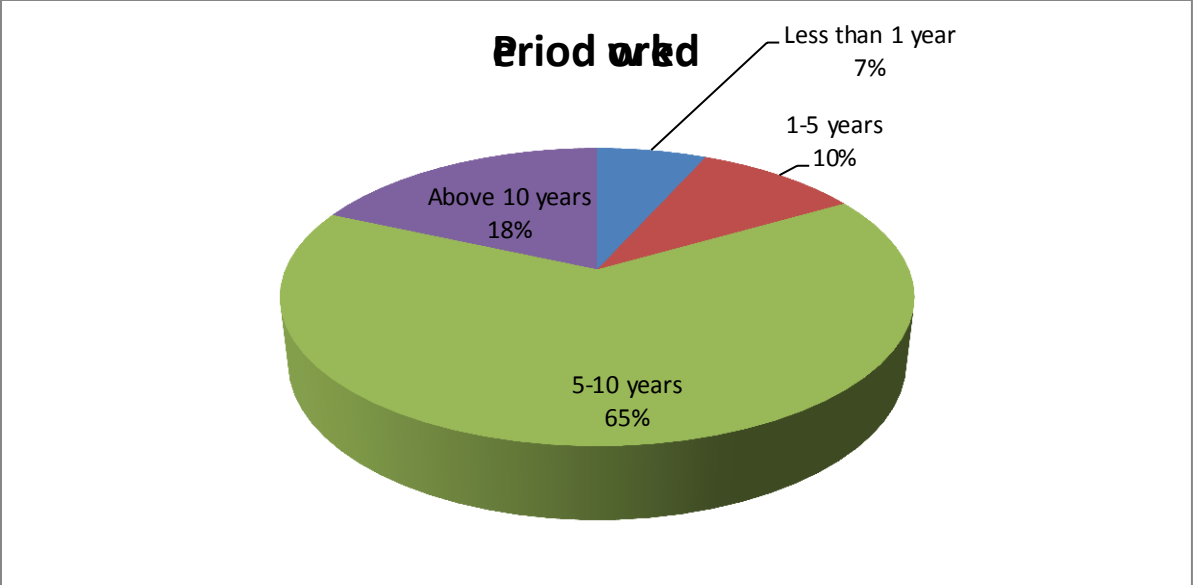


Figure 4.3: Number of years worked

Source: Field data, 2019

The study established that 7% of the respondents had worked or run the SMEs in Kitui County for less than 1 year, 10% had been business for between 1-5 years, 65% of them had run or worked with the SMEs for between 5 and 10 years while 18% of them had worked/run the SMEs for more than 10 years. This indicates that most of the respondents had worked or run the SMEs for between 5 and 10 years. This shows that the respondents had worked with the SMEs for a significantly long period of time to understand the microfinance services available in the area and market and the performance trend and challenges of the enterprises.

4.3 Descriptive Statistical Findings

The study analyzed the extent to which the three microfinance services which included credit facilities, saving culture and financial literacy were being embraced by the SMEs in Kitui County and the effect they had on financial performance using descriptive statistics. The findings were presented using percentages, frequencies, means and standard deviations as presented below;

4.3.1 Credit Facilities and Financial Performance

The study sought to establish the effect of credit facilities on the financial performance of small and medium enterprises in Kitui County. The respondents were therefore asked to indicate the extent to which credit facilities affected financial performance of SMEs. 62% indicated that the

effect was to great extent, 21% indicated that it was to a very great extent while 17% indicated that credit facilities to a little extent affected performance of the SMES.

The respondents were further asked to indicate the extent to which they agreed or disagreed with the following statements on how credit facilities affect the financial performance of SMEs in Kitui County Kenya using a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree. The findings were as presented below;

Table 4.3: Credit Facilities and SME Performance

Credit Facilities and Financial Performance	Mean	Std. Dev.
We have established adequate credit risk management policies before granting loans to customers	3.12	1.321
We have improved our credit risk management to achieve more profit	2.87	1.522
We have established a suitable credit risk environment for our customers adequate information sharing system on credit referencing	2.64	0.619
We have invested more resources in credit information sharing	3.06	0.822

Source: Field data, 2019

The respondents to a moderate extent agreed that the MFIs have established adequate credit risk management policies before granting loans to customers, they have improved their credit risk management to achieve more profit, they have established a suitable credit risk environment for their customers adequate information sharing system on credit referencing and they have invested more resources in credit information sharing as indicated by a mean of 3.12, 2.87, 2.64 and 3.06 respectively. The lenders and MFIs in Kitui County have embraced to a significant extent credit management policies, management and information sharing to improve repayment, management of credit and diligence among SMEs in accessing credit and capital.

4.3.2 Saving Culture and Financial Performance

The study sought to establish the influence of saving culture on financial performance of SMES in Kitui County, Kenya. 7% indicated that the effect was to no extent, 19% to a little extent, 28% to moderate extent, 37% to a great extent and 9% to a very great extent. This indicates that

saving culture as a microfinance service offered to the SMEs in Kitui County to a significant extent influenced financial performance of the SMEs.

The respondents were further asked to indicate the extent to which they agreed or disagree with the following statements on how saving facilities affect the financial performance of SMEs in Kitui County Kenya using a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree. The findings were as tabulated below;

Table 4.4: Saving Culture and SME performance

Saving Culture and Financial Performance	Mean	Std. Dev
We have relatively poor savings habits in our organization	3.18	0.811
We have increased trainings on financial management among workers to enhance saving culture	3.21	0.647
Our organization continually structures to favor and encompass the effort of the youth	2.68	0.511
We have educated our workers on the benefits of savings	2.57	0.817
We have embraced cooperative societies to immense benefits of savings	3.29	0.701

Source: Field data, 2019

The study respondents to a moderate extent agreed that the SMEs have relatively poor savings habits, they have increased trainings on financial management among works to enhance saving culture, the enterprises continually structure to favor and encompass the effort of the youth, they have educated their workers on the benefit of savings and embraced cooperative societies to immense benefits of savings as indicated by a mean of 3.18, 3.21, 2.68, 3.57 and 3.29 respectively. This indicates that to a significant extent the enterprises had embraced a favorable saving culture by sensitizing their staff and embracing cooperative societies.

4.3.3 Financial Literacy and Financial Performance

The respondents were asked to indicate the effect of financial literacy on financial performance of SMES in Kitui County, Kenya. 77% of the respondents indicated that the effect was to a great extent, 19% was to a very great extent while 4% indicated that it was to a moderate extent. This

shows that to a significantly great extent financial literacy services by MFIs in Kitui County enhanced financial performance of SMEs.

The respondents were further asked to indicate the extent to which they agreed or disagreed with the following statements on how financial literacy affect the financial performance of SMEs in Kitui County Kenya on a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree. The study findings were as presented in the table below;

Table 4.5: Financial Literacy and Performance of SMEs

Financial Literacy and Financial Performance	Mean	Std. Dev
We have devised policies that address financial literacy training programs on individual savings	2.57	0.716
We have a number and variety of financial literacy training programs	2.61	0.901
Our organization makes sure its employees are exposed to financial literacy training	3.04	0.825
We instill financial literacy knowledge to our management	3.01	0.801
We have created awareness to our employees on the importance of being financially literate	3.33	0.617

Source: Field data, 2019

The respondents who were owners or staff among the SMEs in Kitui County to a moderate extent indicated that the SMEs have devised policies that address financial literacy training programs on individual savings, they have a number and variety of financial literacy training programs, the SMEs have made sure that their employees are exposed to financial literacy training programs offered by financial sector players in the county, the enterprises instill financial literacy knowledge to their management and they have created awareness to their employees on the importance of being financially literate as indicated by a mean of 2.57, 2.61, 3.04, 3.01 and 3.33 respectively. This indicates that to a significant extent the enterprises are aware, have embraced and exposed to financial literacy training programs offered by MFIs and financial institutions in the county.

4.3.4 Financial Performance

The dependent variable of the study was the financial performance of small and medium enterprises in Kitui County. The respondents were asked to indicate the degree to which they agreed or disagreed with the following statements on financial performance of SMEs in Kitui County on a scale of 1-5 where 1=strongly disagree, 2=disagree, 3= undecided, 4= agree and 5= strongly agree. The study findings were as presented in the table below;

Table 4.6: Financial Performance of SMEs

Financial Performance	Mean	Std. Dev
The net profit of our organization has increased	2.73	0.617
We have focused on growing our organization to ensure that we enjoy the economies of scale	3.36	1.431
We have adopted financial innovation that has improved performance	3.20	0.718
Our organization has improved its gross profit margin	3.41	0.806
We have employed minimal debt level	2.81	0.811

Source: Field data, 2019

The study established that to a moderate extent the net profits of the SMEs has increased, they have focussed on growing to ensure that they enjoy economies of scale, they have adopted financial innovation that has improved their performance, they have improved their gross profit margin and employed minimal debt level as indicated by a mean of 2.73, 3.36, 3.20, 3.41 and 2.81 respectively. This indicates that to an average extent the performance of the enterprises had improved given the microfinance services available in the market.

4.4 Inferential Statistics

Inferential statistics were used to determine the degree of relationship between microfinance services and financial performance of small and medium enterprises in Kitui County, Kenya. The findings of Model Summary, ANOVA and Regression Coefficients are indicated in subsequent sections below.

4.4.1 Model Summary

The summary of findings of coefficient of determination and coefficient of adjusted determination are as shown in Table 4.7.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824 ^a	.811	.823	1.711021

The findings found out that coefficient of correlation R was 0.824 an indication of strong positive correlation between the variables. Coefficient of adjusted determination R^2 was 0.823 which changes to 82.3% an indication of changes of dependent variable can be explained by (credit facilities, savings culture and financial literacy). The residual of 17.7% can be explained by other factors beyond the scope of the current study.

4.4.2 ANOVA

The study carried out an ANOVA at 95% level of significance. The findings of $F_{\text{Calculated}}$ and F_{Critical} are as shown in Table 4.8.

Table 4.8: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	761.238	10	76.0238	11.4796	.000 ^b
Residual	331.126	50	6.62252		
Total	1092.364	60			

The findings show that $F_{\text{Calculated}}$ was 11.4796 and F_{Critical} was 6.3142, this show that $F_{\text{Calculated}} > F_{\text{Critical}}$ ($11.4796 > 6.3142$) an indication that the overall regression mode was significant for the study. The p value was $0.000 < 0.05$ an indication that at least one variable significantly influenced financial performance of the SMEs in Kitui County.

4.4.3 Coefficients of Regression

The study ran a regression establish the individual influence of the variables to firm performance. The findings are indicated in Table 4.9.

Table 4.9: Coefficients of Regression

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	5.901	0.721		4.112	.000
Credit facilities	0.813	.134	.051	9.321	.000
Saving culture	0.810	.132	.041	9.261	.000
Financial literacy	0.797	.172	.132	8.167	.000

The resultant equation was

$$Y = 5.901 + 0.813X_1 + 0.810X_2 + 0.797X_3$$

Where: Y = Financial Performance of SMEs in Kitui County, Kenya

X₁ = Credit facilities

X₂ = Saving culture

X₃ = Financial literacy

The study found out that by holding all the variables constant, financial performance of the SMEs will be at 5.901. A unit increase in credit facilities as a microfinance service when holding all the other variables constant, financial performance would be at 0.813. A unit increase in saving culture while holding other factors constant, financial performance of the SMEs would increase by 0.810. A unit improvement in financial literacy while holding other factors constant, financial performance would be at 0.797. The findings pointed out that the independent variables had a p value of 0.000<0.05 an indication that the microfinance services significantly influenced financial performance of small and medium enterprises in Kitui County.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to establish the relationship between microfinance services and financial performance of SMEs in Kitui County. The chapter discusses the summary of the findings presented and discussed in chapter four; conclusions and recommendations based on the findings and interpretations.

5.2 Summary of the Findings

The purpose of the study was to find out the effect of microfinance services on the financial performance of SMEs in Kitui County, Kenya. The study objectives were to establish the influence of credit facilities, saving culture and financial literacy on the financial performance of SMEs in Kitui County. The study coefficient of correlation R of 0.824 an indication of strong positive correlation between the variables and coefficient of adjusted determination R^2 was 0.823 which changes to 82.3%.

5.2.1 Credit Facilities and Financial Performance of SMEs

The study established that availability, access and awareness on credit facilities had a positive and significant effect on financial performance of SMEs in Kitui County. The respondents to a moderate extent agreed that the MFIs have established adequate credit risk management policies before granting loans to customers, they have improved their credit risk management to achieve more profit, they have established a suitable credit risk environment for their customers adequate information sharing system on credit referencing and they have invested more resources in credit information sharing. The lenders and MFIs in Kitui County have embraced to a significant extent credit management policies, management and information sharing to improve repayment, management of credit and diligence among SMEs in accessing credit and capital.

5.2.2 Saving Culture and Financial Performance of SMEs

The study established that saving culture among SMEs significantly and positively influenced their financial performance. The study respondents to a moderate extent agreed that the SMEs have relatively poor savings habits, they have increased trainings on financial management among works to enhance saving culture, the enterprises continually structure to favor and encompass the effort of the youth, they have educated their workers on the benefit of savings and embraced cooperative societies to immense benefits of savings. This indicates that to a

significant extent the enterprises had embraced a favorable saving culture by sensitizing their staff and embracing cooperative societies.

5.2.3 Financial Literacy and Financial Performance of SMEs

The study established that financial literacy had a positive and significant effect on financial performance of SMEs in Kitui County. The respondents who were owners or staff among the SMEs in Kitui County to a moderate extent indicated that the SMEs have devised policies that address financial literacy training programs on individual savings, they have a number and variety of financial literacy training programs, the SMEs have made sure that their employees are exposed to financial literacy training programs offered by financial sector players in the county, the enterprises instill financial literacy knowledge to their management and they have created awareness to their employees on the importance of being financially literate. This indicates that to a significant extent the enterprises are aware, have embraced and exposed to financial literacy training programs offered by MFIs and financial institutions in the county.

5.3 Conclusion

The study concluded that availability of credit facilities, saving culture and financial literacy have a positive and significant effect on the financial performance of SMEs in Kitui County.

The study concluded that there were microfinance services available for SMEs in Kitui County and the SME owners were aware of them.

The study concluded that to an average extent the performance of the enterprises had improved given the microfinance services available in the market.

5.4 Recommendations

The study recommends that the SMEs should conduct due diligence, risk assessment and capacity before taking credit.

The study recommended that the MFIs and other lenders should enhance capacity of the SMEs, improve their saving culture and financial literacy to enhance their financial management, awareness and ability to repay credit. .

5.5 Suggestions for Further Studies

Similar study should be conducted among SMES in other counties to establish whether there is a variance or convergence on the effect of microfinance services on financial performance. The coefficient of adjusted determination R^2 was 0.823; therefore, the residual of the study was 17.7

and can be explained by other factors beyond the scope of the current study that future scholars should focus on. Further studies therefore should be done on the effect of other microfinance services on financial performance in the financial services sector.

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APPENDICES

APPENDIX II: QUESTIONNAIRE

Please answer all the questions in all the sections as indicated by either ticking or filling in the blank space provided.

Section A: Background information *(please put an X in relevant box)*

Name (Optional).....

1. What is your age bracket?

Below 20 years []

20-30 years []

31-40 years []

41-50 years []

Above 50 years []

2. Which is your highest academic level?

Primary certificate []

Secondary certificate []

College diploma []

University Graduate []

Post graduate []

3. How long have you been working in your current organization?

Less than 1 year []

1-5 years []

5-10 years []

Above 10 years []

Section B: Credit Facilities and Financial Performance

4. What is the effect of credit facilities on financial performance of SMES in Kitui County, Kenya?

No extent []

Little extent []

Moderate extent []

Great extent []

Very great extent []

5. Indicate the extent to which you agree or disagree with the following statements on how credit facilities affect the financial performance of SMEs in Kitui County Kenya. Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree.

Credit Facilities and Financial Performance	1	2	3	4	5
We have established adequate credit risk management policies before granting loans to customers					
We have improved our credit risk management to achieve more profit					
We have established a suitable credit risk environment for our customers adequate information sharing system on credit referencing					
We have adopted					
We have invested more resources in credit information sharing					

Section C: Saving Culture and Financial Performance

6. What is the influence of saving culture on financial performance of SMES in Kitui County, Kenya?

No extent []

Little extent []

Moderate extent []

Great extent []

Very great extent []

7. Indicate the extent to which you agree or disagree with the following statements on how saving facilities affect the financial performance of SMEs in Kitui County Kenya. Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree.

Saving Culture and Financial Performance	1	2	3	4	5
We have relatively poor savings habits in our organization					
We have increased trainings on financial management among workers to enhance saving culture					
Our organization continually structures to favor and encompass the effort of the youth					
We have educated our workers on the benefits of savings					
We have embraced cooperative societies to immense benefits of savings					

Section E: Financial Literacy and Financial Performance

10. What is the effect of financial literacy on financial performance of SMES in Kitui County, Kenya?

No extent []

Little extent []

Moderate extent []

Great extent []

Very great extent []

11. Indicate the extent to which you agree or disagree with the following statements on how financial literacy affect the financial performance of SMEs in Kitui County Kenya. Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- undecided, 4= agree and 5= strongly agree.

Financial Literacy and Financial Performance	1	2	3	4	5
We have devised policies that address financial literacy training programs on individual savings					
We have a number and variety of financial literacy training programs					
Our organization makes sure its employees are exposed to financial literacy training					
We instill financial literacy knowledge to our management					
We have created awareness to our employees on the importance of being financially literate					

F: Financial Performance

Financial Performance	1	2	3	4	5
The net profit of our organization has increased					
We have focused on growing our organization to ensure that we enjoy the economies of scale					
We have adopted financial innovation that has improved performance					
Our organization has improved its gross profit margin					
We have employed minimal debt level					