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# The Effects of Micro-Finance Institutions on the Growth of Small and Medium Enterprises in Trans Nzoia County- A Case Study of Faulu Microfinance Bank Ltd

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***Abstract*: Growth has been used as a simple measure of success in business. Moreover, growth is an important precondition for the achievement of other financial goals of business. From the point of view of an SME, growth is usually a critical precondition for its longevity. Young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run. Small Medium Enterprises (SMEs) employ between 1-99 people each and the sector is characterized by small scale level of activity, self-employment, with high proportion of family workers and apprentices, little capital and equipment, labor intensive technologies, low skills and low level of access to organized markets. The growth of SMEs is believed to be a desirable end as the key drivers of employment and economic development. Small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic growth. Microfinance in Kenya is carried out by institutions with varied forms including companies, cooperative societies, trusts, non-governmental organizations (NGOs) state corporations and informal operators such as moneylenders. There are over 100 organizations in Kenya including 50 non-Governmental organizations (NGOs) which practice some form of microfinance. In this research, the researcher focused on the four variables, that is, facilitation, training, efficiency and the growth of business. This will aid in assisting SMEs to gain financial traction together with the required skill set so as to navigate the sector properly. The main purpose of the study was observed as to analyze the impact of MFI's on the growth of small and medium enterprises in Trans Nzoia County. The specific objectives were: To determine the effects of growth on small and medium enterprises performance in Trans Nzoia County, to evaluate the effects of efficiency on small and medium enterprises performance in Trans Nzoia County, to examine the effects of training on small and medium enterprises performance in Trans Nzoia County and to identify the effects of facilitation on small and medium enterprises performance in Trans Nzoia County. The theories used were: agency theory, Provisional Theory of Consistency, pecking order theory and trade off theory. The data collected was analyzed using descriptive statistics and regression, presented in tables and charts extracted from both MS Excel and Statistical Package for Social Studies (SPSS) software tools version 20. The general findings of the research were that Micro-finance banking institutions like Faulu does indeed play a role in the growth of SMEs in Trans Nzoia County.**

***Keywords:* SMEs payback period, Financial literacy training , facilitation and Prudential Efficiency.**

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# 1. INTRODUCTION

**Background:**

According to Financial Sector Deepening (FSD) Journal (2007), Small Medium Enterprises (SMEs) employ between 1-99 people each and the sector is characterized by small scale level of activity, self-employment, with high proportion of family workers and apprentices, little capital and equipment, labor intensive technologies, low skills and low level of access to organized markets. The development of SMEs is believed to be a desirable end as the key driver of employment and economic growth. However, the growth of SMEs has been hampered due to great difficulties encountered when raising capital because of the pre-occupation of the microfinance institutions with collateral based lending (Hossain, 2010).Firm's growth in general refers to the increase in size. In research, firm's growth has been operationalized in many ways and different measures have been used. This may be one reason for the contradictory results reported by previous studies, though other explanations have also been presented (Delmar, Davidson& Gartner, 2013). One of the typical measures for growth has been change in the number of employees. However, it has been found that these measures, which are frequently used in the SMEs context, are strongly inter-correlated (Pasanen, 2013). Growth can also serve as an instrument for increasing profitability by enlarging the firm's market-share (Hossain, 2010).SME growth is often closely associated with the firm's overall success and survival (Barringer, Jones and Neubaum, 2015). Growth has been used as a simple measure of success in business. Also, as cited by Pasanen (2014) suggest that, growth is the most appropriate indicator of the performance for surviving small firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (Delmar, Davidsson and Gartner, 2013). From the point of view of an SME, growth is usually a critical precondition for its longevity. Phillips and Kirchhoff cited by Pasanen (2014) found that young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run (Pasanen, 2013). The growth of SMEs is believed to be a desirable end as the key driver of employment and economic development.

Small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic growth (Tagoe, 2015). Small and Medium Enterprises have huge potential for employment generation and wealth creation in any economy, yet the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment (FSD Kenya, 2007). Beck, Demirguc-Kunt, and Maksimovic (2012) determined the financing obstacles faced by firms in over 10,000 sampled firms from 80 countries established that SMEs are faced with higher financing constraints than larger and older firms as part of the reason that limits their growth. In addition, small and medium enterprises have been forced to make extensive reports to financial institutions when applying for finances and at the same time, agree with more restrictive asset usage (Tagoe, 2015). In Kenya, although there is no reliable data to show that productivity in the SME sector has improved, the sector is still faced with a number of constraints with lack of credit availability as the principal one. The situation in Kenya is not that different from the rest of the world. Credit is the largest element of risk in the books of most banks and failures in the management of credit risk. Credit risks have contributed too many episodes of financial instability in relation to the small and medium enterprises in the long run (Tagoe, 2015).

According to Nyanjwa (2008) the finance sector in Kenya was served by 43 commercial banks, 96 foreign exchange bureaus, 2 mortgage finance institutions, 5122 Savings and credit societies (SACCOS), 6 development finance institutions and 34 microfinance institutions. The microfinance sector in Kenya is currently serving 6.5 million people with outstanding loans of US $ 310 million (amfikenya.com). Nyanjwa (2008) stated that microfinance in Kenya is carried out by institutions with varied forms including companies, cooperative societies, trusts, non-governmental organizations (NGOs) state corporations and informal operators such as moneylenders. According to Omino (2005) there are over 100 organizations in Kenya including 50 non-Governmental organizations (NGOs) which practice some form of microfinance. 20 of these organizations practice pure microfinance while the rest practice microfinance alongside social welfare activities. Kithinji (2012) noted that Kenya has had more exposure to microfinance than any other country in Sub-Saharan Africa, with micro-credit programs dating back to the early 1980s. Omino lists the major players in this sector as Faulu Kenya, Kenya Women Finance Trust KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Program (SMEP), (Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management

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(Jitegemee Trust). The Microfinance sector is licensed and regulated by the Central Bank according to the Microfinance Act (GOK 2006). According to Ndulu (2010) the microfinance sector regulation has adopted a 3 tiered approach which comprised a prudential regulation and supervision for deposit-taking institutions by the Central bank, a non-prudential regulation for credit only by the Ministry of Finance and finally no regulation for ROSCAs and ASCAs.

**Faulu Kenya:**

Faulu began as a development project in 1991, initiated by Food for the Hungry International (FHI), a Christian international relief and development organization. It was registered as an NGO in 1994. Faulu's main objective was to provide credit to lower income households and micro-enterprises. With support from various donors, among them the Department for International Development (DFID) and the United States Agency for International Development (USAID), Faulu grew over the years to a level of near financial self-sufficiency. In order to have more access to commercial funding (which is easier for a limited liability company than for an NGO), they decided to incorporate into a private company with limited liability under the Companies Act in 1999.

While Faulu attained operational self-sufficiency in 2000, its portfolio deteriorated significantly in 2002 after it tried to enlarge its main target group - the lower income market - to include an upmarket segment. Faulu faced difficulties for two years and recorded a loss in 2004 due to high provisions for non-performing loans. In 2005 Faulu refocused on lower income households and microenterprises once more. Following this, it regained profitability and started growing rapidly. A switch to a more business oriented approach proved to be very successful and Faulu experienced an average annual growth in operations of 75% during the following two years. Encouraged by their growth, Faulu took the opportunity to issue a first microfinance corporate bond, and undertook steps to convert into a public limited company in 2004. The issue of a Kes. 500 million 5-year bond (75% guaranteed by Agence Francaise de Development) was successfully accomplished in 2005By 2007 when it was preparing for transformation, Faulu was one of the three largest microfinance institutions in Kenya. It had a network of 19 branches, 48 Marketing offices and a client base of about 76,000. Faulu's main competitors were other large MFIs that served the same market segment. Kenya Women Financial Trust was its most direct competitor, although it dealt only with women. The increasing profitably of MFIs serving the lower income market encouraged microfinance oriented banks such as Equity Bank, Family Bank and Cooperative Bank to take greater interest in the same segment. This led to a more competitive environment for Faulu. Faulu realized that the ability of the microfinance oriented banks to provide a larger scale of products, including credit and savings, was key to their success. Its decision to transform was therefore based on three main reasons: increased competition, increased demand for a wider range of services, and the need to lower the cost of funds in order to serve the clients better. By deciding to transform Faulu also hoped to contribute to the development the microfinance sector by being a pioneer - the first MFI to transform into a DTM in Kenya.

**Statement of the problem:**

A number of studies have been conducted on the effect of banking institutions on SMEs growth. In many cases, bank lending has been a prime source of credit to SMEs. However, with the current economic downturn, the credit relationship between banks and SMEs has been associated with a lot of risk, and in order to mitigate these risks, banks all over the world have used strict financing rules and collateral in financing SMEs growth (Bakht, 2008). Bakht (2008) carried out a study on the challenges facing SMEs in Bangladesh and he acknowledged that insistence on collateral security adversely affected the growth of SMEs and the interest rates charged were prohibitive. Temu (2009) conducted a study on the burden that SMEs faced in getting financial approval in Ghana. The study found out that the financing of the enterprises were strict and there was a high demand for collateral among financial institutions. In addition, there were long procedural issues such as a lot of paperwork, collateral security and high processing fees and prepayment charges, issues that affected the growth of SMEs.

In Tanzania, Temu (2009) conducted a study on the constraints of SMEs and the common constraints identified included capital, poor business skills, poor technology and entrepreneurship. As a result, the study concluded that the government and international development organizations should implement assistance programs aimed at fostering micro-enterprises creation and growth in Tanzania. Many studies have also been done in Kenya on the financing of SMEs. Some of the studies included Atieno (2011) and Temu (2009) empirical findings. Atieno (2011) aimed at empirically analyzing the credit policies on SME in the rural markets and their effect on SME's growth and performance.

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In this regard, the studies excluded some important factors on the effect of MFIs financing which are critical for SMEs and growth, performance and success. This is because there are a number of factors which interact to lead to SMEs performance such as their sources of capital, the skills of its human resource and the satisfaction of their financial needs with the assistance of MFIs. It is in this context that this study was conducted primarily to address the research gaps in the effect of Faulu Kenya as a microfinance institution in financing the growth of SMEs. Lack of adequate finance from microfinance institutions is one of the most prominent issues facing SMEs seeking to expand and sustain their growth. The shortage of long-term finance was considered to be a major long-term constraint on SMEs growth and expansion plans.

Most SMEs rely too heavily on short-term loans from banking institutions, which are more expensive and therefore increase the risk of failure due to strict financing rules and procedures (Temu, 2009). For SMEs, equity financing from MFIs like Faulu could be more appropriate for their growth and expansion. Thus, it is more appropriate to study the effect of MFIs on the growth of SMEs. The MFIs like Faulu Kenya may be a solution because they would lend without putting stringent demands on SMEs. This notwithstanding, the SMEs have not shown great growth. The failure rate continues to be high. The main Impediment to SMEs growth here being accessibility to finances which can thus be mitigated by utilization of MFIs like FAULU Kenya microfinance.

**Objectives:**

**General Objective:**

The general objective of the study will be to analyze the effects of MFI's on the growth of small and medium enterprises in Trans Nzoia County.

**Specific Objectives:**

1. To identify how SMEs payback affects the micro-finance enterprises performance in Trans Nzoia County.
2. To evaluate the role played by prudential efficiency on small and medium enterprises performance in Trans Nzoia County.
3. To examine the role played by finance literacy training on small and medium enterprises performance in Trans Nzoia County
4. To assess how facilitation affects small and medium enterprises performance in Trans Nzoia County.

***Research Questions:***

1. What are the effects of SMEs payback period on small and medium enterprises performance in Trans Nzoia County?
2. What is the role played by prudential efficiency on small and medium enterprises performance in Trans Nzoia County?
3. What is the role played by finance literacy training on small and medium enterprises performance in Trans Nzoia County?
4. What are the effects of facilitation on small and medium enterprises performance in Trans Nzoia County?

***Hypotheses:***

$HO_1$: SMEs payback period affect performance of small and medium enterprises in Trans Nzoia County.

$HO_2$: Prudential efficiency does affect performance of small and medium enterprises in Trans Nzoia County.

$HO_3$: Finance literacy Training does affect performance of small and medium enterprises in Trans Nzoia County.

$HO_4$: Facilitation does affect performance of small and medium enterprises in Trans Nzoia County.

***Justification of the study:***

Most studies seem to concentrate on the effect of banking institutions on SMEs growth rather than the impact of MFIs on the growth of SMEs in Kenya. Those studies that delve on the impact of banking Institutions tend to generalize the impacts financing SME has on the economy. It is thus essential to concentrate on the impacts of financial intermediaries like micro-finance Institutions as they tend to have specific impacts on the workings of SMEs in the County or country.

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This generalization is observed to have failed to close the gap between the theory and practice of financial intermediation in its original intended form. This study is significant in three ways, first it adds to the body of empirical literature on the influence of financial intermediation through institutions like Faulu Kenya on the growth of SMEs, secondly it explains how best micro-finance Institutions can ensure the financial maturity of these SMEs in their final endeavor of prudence and conservatism in the management of finances, thirdly, the study incorporates the effects of organizational techniques like Payback period, Financial literacy training, facilitation and Prudential efficiency. MFI challenges and difficulties in the implementations of such techniques. The findings of this study will help researchers, shareholders and academicians have intricate details as to the decision-making process in micro finance institutions. The findings of this study will also help micro finance enterprises to be protected against bad investments thus it is seen to mitigate against financial risks.

***Scope of the Study:***

This research will be limited to investigating the impact of MFIs on the growth of SMEs in Kenya that eventually can be utilized to ensure the steady growth of micro finance Institutions like Faulu Kenya together with SME's in Trans-Nzoia County. The geographical scope of the study will be limited to Trans-Nzoia County because the focus of the study will be centered at the region. The Research study will cover issues relating facilitation, financial literacy, payback period and prudential efficiency.

## 2. LITERATURE REVIEW

**Introduction:**

This chapter gives a review of existing literature on the effects of MFI's on the growth of small and medium enterprises in Trans Nzoia County. The main sections included are: theoretical framework, a review of related studies with a view of exposing research gaps and the conceptual framework.

**Theoretical Literature**

Porter (2011) defines a theory as an integrated set of concepts, formed into propositions that explain particular conditions or events in the world around us. Theories of Operations generally assume that higher performance requires greater effort or that it is in some other way associated with disutility on the part of workers, Political, Economic, Social, Technological, Legal/ governmental and Environmental factors.

**The Agency Theory:**

Traditionally, agency theory is employed to explore the relationship between a firm's ownership and management structure and its financial/ business performance. Where a separation of ownership and control exist, agency control mechanisms are put in place to align the goals of managers (agents) with those of owners (principals). Agency costs represent the costs of all activities and operating systems designed to align the interests and/or actions of managers with the interests of owners/shareholders, (Rojas, 2014).Agency costs mainly arise due to contracting costs and the divergence of control, separation of ownership and control and the different objectives (rather than shareholder maximization) the managers. There are various actors in the field and various objectives that can incur costly correctional behavior.

**Provisional Theory of Consistency:**

Many highly ideas can be found (e.g., Hofer, 2010; Miles & Snow, 2012). Conceptual arguments concerning consistency and its effect on performance throughout a business firm have not been adequately linked to data and method. Therefore, provisional theory of consistency across these three levels is developed by considering a small set of activities and their functional level aggregates. Specifically, it is focused on two types of activities within business and use theory developed in marketing and industrial economics to derive hypotheses relating consistency constructs to business performance.

The types of activities that are examined concern the marketing function and the achievement of quality outcomes in the business. To the extent that the types of marketing expenditure – sales force, advertising, and promotion - are correlated, the business is defined as having achieved functional consistency in this function. However, since quality is an outcome, and not strictly a function, investments in quality encompass investments made in activities across the value chain Porter (2011) including service. Thus, to the extent that the measures of quality across the value chain are correlated, functional consistency is defined as having been achieved for these outcome-related activities.

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The inter-relationship between marketing and quality has been hypothesized to lead to higher business unit performance for three reasons. First, Nelson (2014) proposed that marketing expenditures serve as signals of quality and thereby alert consumers to the valuable characteristics of the products. Second, in a similar vein, Porter (2011) makes the distinction between signaling and uses criteria as components of purchasing decisions from suppliers following a generic business strategy of product differentiation. This model involves subsets of the two criteria that he mentions: marketing operations involve signaling; quality is related to use. Both are necessary, but neither alone is sufficient to achieve high performance (Porter, 2011). Last, Klein and Leffler (2013) have argued that the effect of marketing expenditures is not due to signaling, but to the demonstration of supplier commitment to the level of quality in the product; buyers should be more willing to purchase a product when they know that the supplier has sunk high irretrievable costs into selling it and thereby, implicitly ensures that ethic level of quality will be maintained in the long run.

**Trade-off Theory:**

This theory fits in the literature initiated by Modigliani and Miller (2004) upon strong assumptions— capital markets are perfect and there are neither tax or agency costs nor transaction costs—and demonstrate that financial structure is neutral vis-à-vis the value of the company. Later on, Modigliani and Miller (2004) relax the neutrality axiom and include taxation: the value of an indebted company is equal to that of a non-corporate debt, plus the present value of the tax savings from debt and less the present value of costs related to potential financial difficulties. Hence, because interest are deductible from taxable profits, firms have an incentive to use debt rather than equity. The value of a leveraged firm is higher in as much as the tax rebate benefits only the business itself, save personal income (Miller, 2013).SMEs already enjoy a low tax rate that limits at some point any leverage policy conditional to a rebate on interest charges (Ang,2014). The existence of bankruptcy costs (Stiglitz, 2009) involves a balance between the value of the firm and tax benefit; it theoretically drives to an optimal debt level when the marginal benefits associated with tax rebate are equal to the marginal costs associated with bankruptcy due to leverage.

Similarly, forsaking the hypothesis of no agency costs allows for the theoretical existence of an optimal capital structure. Agency theory (Stiglitz, 2009) assumes that there are conflicts of interest between the principal (shareholders) and the agent (business managers); hence, triggering agency costs that affect financing. Conflicts of interest between shareholders and creditors arise because the latter have priority over the former in case of bankruptcy. An optimal debt ratio is achieved when agency costs are minimum.SMEs face no or little agency costs between managers and shareholders, because they are often confused, unless the firm belongs to a group. However, agency conflicts between owners and lenders arise. The lender (principal) experiences difficulties in monitoring the decision of a small firm owner manager (agent); mostly due to a lack of transparency in information systems that generates agency costs (Ang, 2014).

**Pecking Order Theory (POT) and asymmetry of information:**

Myers and Majluf (2011) developed Pecking Order Theory (POT) upon the asymmetry of information between internal stakeholders (owners and managers) and external providers of the firm. Business leaders adopt a financial policy, which aims at minimizing the costs associated with asymmetric information, especially adverse selection, and prefer internal financing to external financing. This theory assumes that a business leader complies with the following hierarchy: self-financing, non-risky debt issuance, risky debt issuance and equity issuance as a last resort. Such behavior eschews a fall in the prices of shares of the firm; it restricts the distribution of dividends in order to increase cash flow and reduces the cost of capital by limiting as much as possible access to loans. Thus, profitable firms enjoy more internal funds available.

Asymmetric information should drive the issue of debt over equity. Debt issuance signals the confidence of the board that an investment is profitable and that the current stock price is undervalued. Equity issuance signals a lack of confidence in the board that may feel the share price is overvalued. An issue of equity would therefore lead to a drop in share price. However, this may not apply to intangible assets.

Holmes & Kent (2009) point out that POT applies to SMEs, save subcontracting SMEs or those belonging to a group (Kremp & Phillippon, 2008). SMEs do not aim to achieve an optimal financial structure; they rank their preferences for internal financing over external financing, as well as debt relative to equity. They may wish to borrow when investment funding exceeds their internal cash flow, albeit they will face transaction costs in their credit relationship. These costs may be zero for internal funds (cash flow), albeit higher for new shares issuance, whereas that of debt stand in between. The objective of SMEs managers is to maximize their own wealth, while securing control over decision making vis-à-vis

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external actors. Hence, they will first choose internal funds for financing and if such funds prove unavailable, they prefer using debt rather than increasing their capital.

POT is also supported with respect to assumptions regarding the age and profitability of SMEs: they use less debt as time goes by and when their life cycle leads youth to maturity (Berger & Udell, 2012).Transaction Costs Economics (TCE), alongside with behavioral finance (Barberis & Thaler, 2013) may also explain the financial behavior of SMEs.

**Conceptual Framework:**

Conceptual framework consists of independent and dependent variables. The variables are Payback period, Training, Facilitation and efficiency while the dependent variable is small and medium enterprises performances.

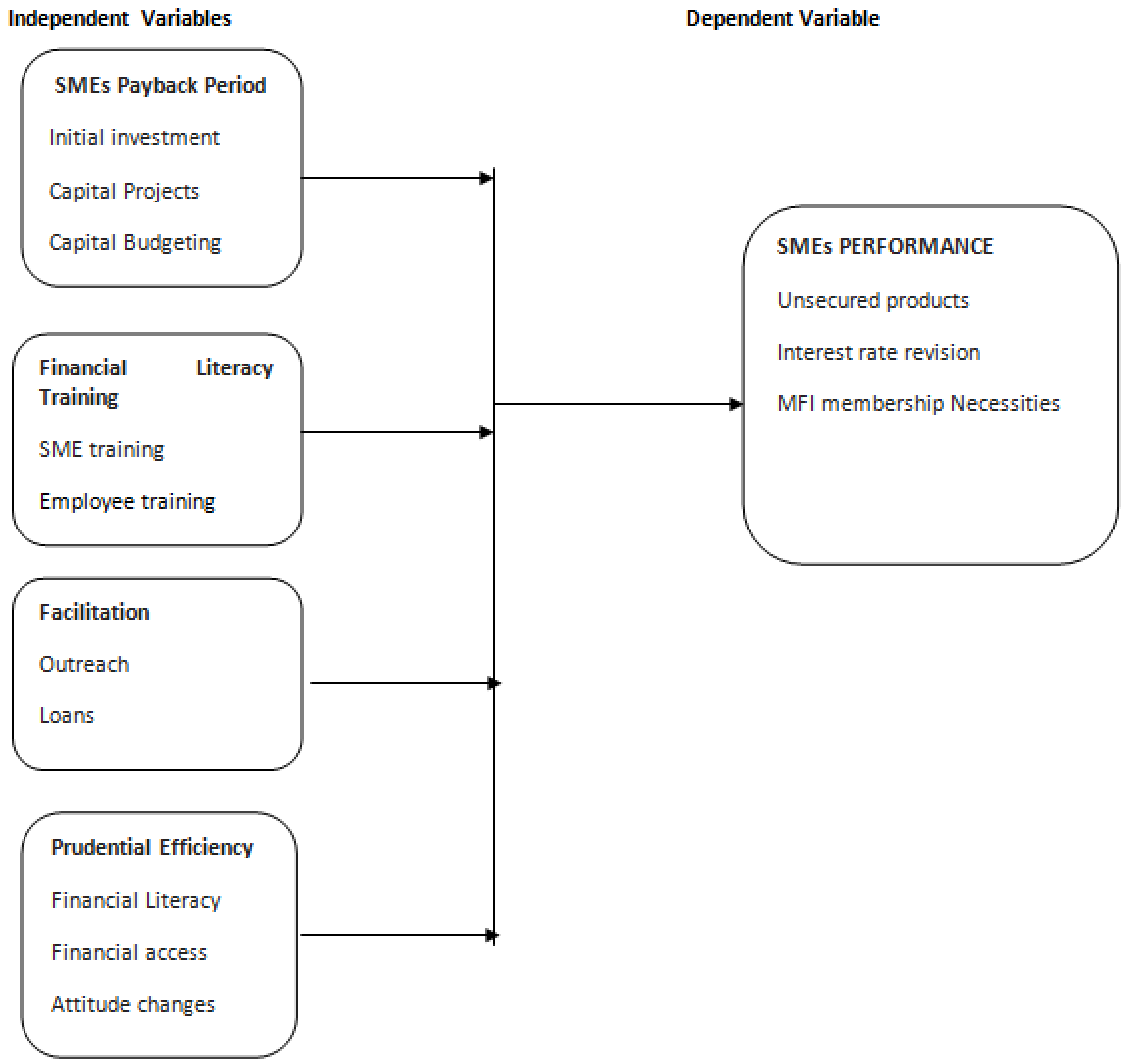


**Figure 2.1.Conceptual Framework**

**Review of Variables:**

**Payback Period:**

According to Ivan (2005), the payback period represents the amount of time that it takes for a capital budgeting project to recover its initial costs. An estimate of the time will be necessary for an investor to recoup the initial investment. It is used to compare investments that might have different initial capital requirements. Denise and William (2007). The time between the first loan and it`s maturity. For example, if one takes out a student loan within a payback period of ten years, the full amount is due ten years after the first payment, which occurs on an agreed upon date. Over the course of the payback period, a borrower must either payback the loan with his/her own funds or take out a different loan to pay off the first. It is called the premium recovery period. The definition of payback period for capital budgeting purposes is simple. The payback period is the number of years it takes to payback the initial investment of a capital project from the cash flows that the project produces.

The capital project (MFI) could be building or buying a new or replacement piece of equipment. In this example, it is buying real estate. Most firms set a cut-off payback period, maybe 3 years depending on their business. In other words, in this example, if the payback is 2.5 years, the firm would purchase the asset or invest in the project. If the payback were 4 years, it would not. Payback is often used as a "first screening method". This implies that when a capital investment project is being considered, the first question to ask is: 'how long will it take to pay back its cost'?

The payback method is more short-term in nature, it thus provides us insights as to the reasons why micro-finance enterprises utilize it most often. Small businesses typically do not engage in long-term planning, and as such are not as concerned with long-range capital budgeting techniques as with MFIs who require both long-range and short range capital budgeting techniques.

Issuing measures that would ensure an early Payback period of SMEs in TransNzoia County by Faulu Micro-finance bank is observed as an essentiality. Certain facilities are seen or observed to have enhanced the early Payback period of SMEs in TransNzoia County. An example of one of these SME early Payback period enhancing measures is the inception of unsecured loan facilities to the SMEs in the County so as to ensure the organic growth of these SMEs. It is also observable that there has been a general revision of interest rates of Faulu Kenya TransNzoia County so as to accommodate these SMEs and assist them in their endeavor to attain sustainable growth. In its endeavor to attain growth by the SMEs, Faulu Kenya has also enables potential SMEs to be able to transact with it without being a client. It is thus clear that you can access the MFIs facilities even on presenting bank statements from another financial institution. This has also played a great role in ensuring the growth of SMEs from the County (Alex, 2014).

Liquidity as one of the important financial stability/growth indicator as its shortfall in one MF can causes systemic crisis in the growth of MFI sector due to their interconnected operations. Liquidity held by MFI banks depicts their ability to fund increases in assets and meet obligations as they fall due. The liquidity ratio stood at 37.7 per cent as at December 2014 compared to 38.6 per cent registered in December 2013. The banking sector expenses rose by 17.4 per cent from Kes. 236.4 billion in December 2013 to Kes. 277.6 billion in December 2014 (Kenya, 2013).

Any government interested in the development of their economy should be involved in the provision of regulations to govern the microfinance programs, the interest rate and safe guard the property of the SME's (Alex, 2014). For example, the Kenyan government has supported the interest rates capping introduced recently to protect borrowers from commercial banks' interest rates, which were prohibitively high. Furthermore, the MFIs are requested to establish loan products for social problems like school fees, weddings and funerals, collaborate and share successes and failures of businesses, harmonize the service delivery. MFI can also elicit the support of SMEs owners in the repayment of money borrowed by colleagues(Alex, 2014).Arko (2012)also suggests that the MFIs can continuously sensitize their clients on loan utilization and repayment and discuss with their clients before they confiscate their property. This is because the clients say that if given more flexible terms they would be able to pay back the loan. However, the challenge of MFIs support to business owners is the lack of flexibility from the MFIs when their clients fall sick, loose family members or are involved in accidents (Aftab, 2011).

**Prudential Efficiency:**

Growth of private sector credit in Kenya is impeded among other factors, by efficiency. The costs incurred by micro finance banks to mobilize deposits are spread over a smaller number of borrowers, which contributes to the higher cost of credit. At Faulu MF bank in TransNzoia, it is an inherent endeavor to ensure that clients (SMEs) attain an acceptable level of organizational efficiency so as to achieve eventual profitability and have the sustained ability to break even. A facility like Elewa Pesa initiative that aims at financial literacy for the SMEs owners and employees, strives to make sure the clientele makes wise investment decisions and also ensures prudence in debt and risk management.

Generic strategies are seen as essential for Faulu Kenya Bank MFI to achieve maximum efficiency. Bidley (2011) studied on the effect of generic strategies on increase in sales of manufacturing firms. A descriptive survey was used to find the relationship between the variables. Both primary and secondary data was used. A cross-sectional study was carried out

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and analysis was done using descriptive statistics. The results of the correlation analysis found that there was a positive relationship between generic strategies and increase in sales. This was brought about by an increase in customer turnover that was attributable to cost leadership that attracted many customers to purchase from the manufacturing firms. These findings are coherent with the observation that was made by Robinson (2011) who argued that generic strategies are used as tools to boost penetration in a competitive market environment. This is because firms that adopt competitive strategies utilize their core competencies and thus are able to offer the best in terms of quality and cost effectiveness this makes them position competitively in the market. Thus, they are able to win the largest pool of customers who in turn lead to increased sales and market share (Bidley, 2011).

Lack of financial resources, high cost of borrowing funds, staff skills and external environmental needs, government regulation, and the complexity of coordinating all the firm's activities in pursuit of an agreed strategy were some of the inhabitants of MFIs ensuring efficiency in the SMEs sector or industry by (Robinson, 2011).

Another product that has been initiated by Faulu Kenya TransNzoia County is "Mawaidha" which is a product that aims at the provision of skills and knowledge that will eventually result in the transformation of attitudes, mindsets and behavior of the clientele SMEs. These facilities are thus observed to enhance efficiency in the SMEs in TransNzoia County.

The concept of financial sustainability highlights the importance of microfinance institutions to operate without direct subsidies from donors or any other external financier it enhances organizational proficiency. Only independently, financially sustainable and commercially-oriented microfinance institutions in the formal sector can cope with the growth of loan and savings portfolios necessary to attain extensive outreach to the desired target group and improve their livelihoods to a large extent (Robinson 2011).

Nilsson (2010) conducted a study to investigate the impact of micro finance institutions (MFIs) on the development of small and medium size businesses (SMEs) in Cameroon. The study adopted a case study approach that involved CAMCCUL – (Cameroon Cooperative Credit Union League). The study concluded that microfinance is an important asset to developing countries since it is able to cater for financing needs of the very poor in the society.

Bran and Woller (2010) carried out a study to establish the effects of microfinance in India. The study concluded that microfinance has brought better psychological and social empowerment than economic empowerment. The study further recommended that the impact of microfinance is commendable in courage, self-confident, self-worthiness, skill development, awareness about environment, peace in the family, reduction of poverty improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate. As a result of participation in microfinance, there is observed a significant improvement of managerial skills, psychological wellbeing and social empowerment. It is recommended that the SHGs may be granted legal status to enhance the performance by (Robinson, 2011).

Memba, (2012) conducted a study to establish the impact of venture capital on growth of SMEs in Kenya. The study used 200 SMEs that have been financed by Venture capital as the target population. The SMEs were drawn from various major urban centers in Kenya. The SMEs were stratified according to their locality and a random sampling was carried out by assigning numbers to each stratum. A sample of 100 firms was picked at random from which data was collected using a semi-structured questionnaire as the main tool for data collection. Data was analyzed using descriptive statistics with the help of SPSS computer software. The variables used to measure growth were sales per annum, net assets, profit per annum, and number of workers among others. They were analyzed before and after use of venture capital. The study established that SMEs made significant growth after accessing the financing and recommended that other SMEs should follow suit if the country has to achieve its vision 2030. It was argued that lack of finance has been stated as one of the main reasons for SMEs poor performance in most developing countries by (Robinson, 2011).

**Finance Literacy Training:**

Finance Literacy Training involves the acquirement of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies (Patton & Marlow, 2012). Staff specialist training is one of the most cited Critical Success Factors (CSFs) in ensuring sustainability of MFIs (Goodwin Green, 2013). Finance literacy Training primarily reflects the ability of enabling employees to acquire the skills they need to meet the demands of a more participatory work environment. According to Patton and Marlow (2012), new employees need to be introduced to the institution, its culture and the way of doing things; this enables them to contribute quickly and effectively to the MFI. Likewise, existing employees need to develop as well as adding new skills, knowledge and responsibilities that enable them to grow in the process growth of the organization by (Robinson, 2011).

It is inherently clear that training (both within the organization and as an outreach program by the MFIs) is an essentiality to the effective running of the sector. Faulu MF bank thus strives to ensure that the clientele or the SMEs are efficiently trained to combat the rigors of business management. This is thus a symbiotic relationship as Faulu Kenya is an eventual beneficiary through attaining a general increase in profitability. The SME owners transacting with Faulu Kenya Bank Trans Nzoia County usually get to experience certain perks (educational) like being taught basic book keeping and also the analysis of bank statements. This is also offered to employees that are not well versed with the said subject matter. The SMEs owners and employees are also trained on how to effectively handle the various products offered by the MFI. They are also trained on basic business survival skills. This may be through inviting speakers who are experts in finance to give the SME practitioners lectures on how best they can break even and thus ensure that their SMEs survive in the long run(Yunus,2007)..

The services provided by nonfinancial MFIs are marketing and technology services, business training, production training and subsector analysis and interventions. Ledger wood (2009). Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving as well as persons who want to start up their businesses. The second category of enterprise development services rendered to its clients is the enterprises transformation program which is the provision of technical assistance training and technology in order to enable existing SMESs to advance in terms of production and marketing. Yunus (2007). The main approach used by lenders in the past has been the promotion of such system through training in group formation constitution development, record keeping etc. Getting groups off to a good start is certainly important but problems that later arise are often still difficult for groups to resolve for themselves, and ongoing systems of support and supervision are usually lacking. The sustainability of these services has not been a focus. Johnson (2009).

It is argued that credit alone cannot influence the SMEs performance; however, motivational factors significantly contribute towards the good performance of an enterprise (Benzing and Chu, 2009; Davidson; Shane, 2013). These motivational elements can be acquired in different ways, one of which is training and education. In this regard, training enables participants to change behavior and how they perceived their activities. In Tanzania, most of MFIs provide credit without business training to their clients. MFIs' borrowers comprise SMEs whose owners have had opportunities to attend in business training for different causes. It is important to assess the manner in which business training impacts on SMEs performance compared to the MFIs clients without any training. This study therefore presents a comparative impact analysis on performance of SMEs borrowers from MFIs, by comparing those whose owners have undergone business training against those whose owners have had no business training(Yunus, 2007)..

**Facilitation:**

MFIs have as main objective to provide financial intermediation which involves the transfer of capital or liquidity from those who have excess to those who are in need both at the same time. "Finance in the form of savings and credit arises to permit coordination. Savings and credit are made more efficient when intermediaries begin to transfer funds from firms and individuals that have accumulated funds and are willing to shed liquidity, to those that desire to acquire liquidity" (Von Pischke, 2011). It is visually known that almost all MFIs provide credit services. Other MFIs also provide some financial products such as; savings, insurance, and payment services. Each MFI has its objectives and the choice of the financial service to provide depends on the demands of its target market and its institutional structure. Two important considerations when providing financial services are; to respond effectively to the demand and preference of clients and to design products that are simple and easy to understand by the clients and easily managed by the MFI (Von Pischke, 2011).

According to Oni, (2012), the capacity to build growth capital is dependent on 'whom you know' particularly put as your 'technical know who'. In Nigeria, one of the main problems facing small and medium enterprises is capital required to finance their activities (Fatai, 2009). Experiential data reveals that finance has about 25% impact on the success of SMEs (Ogujuiba, 2014) and (Agwu, 2014). Enterprises are financed either by debt, equity or a combination of the two. He two types of financing are derived from either the formal or informal financial sector. In the formal sector, commercial banks and development banks are the main sources of financing for businesses, while the informal sector comprises of loans from friends, relatives and cooperative societies. In Nigeria, banks such as commercial, microfinance, and central bank, as well as international development agencies are some of the institutions in the formal financial sector that have played important roles in financing small businesses in Nigeria. Ogujuiba, (2014) stressed that the largest source of finance for SMEs around the world remains the commercial banks. Nevertheless, a lot of commercial banks are no willing to finance small businesses because of the risks and uncertainties involved. Some of the reasons for the reluctance of commercial banks in Nigeria to finance the subsector include: harsh economic environment, inadequate managerial skills and insufficient availability of modern technology by small businesses. This has led to a constant reduction in financing small businesses in the country. A number of credit institutions have been created by the government and its agencies over the years. The aim of these credit institutions has been to enhance SMEs access to finance (Fatai, 2009). The CBN acknowledged microfinance as an essential tool for poverty mitigation through empowering micro and small entrepreneurs.

The common products that MFIs provide include; credit, savings, insurance, credit cards, and payment services.

Faulu Kenya Bank Trans Nzoia is observed to provide services like loans for example Asset finance (mostly related to vehicles like tractors since it is located in a rural setting). The MFI also provides to the SMEs construction loans and loans for buying land and mortgages. Due to the mitigating circumstances of the setting in which Faulu MF exist as a setting in TransNzoia, there has arisen a necessity for insurance loans to cover incidents like natural calamities, education policies and medical policies(Yunus, 2007)..

A number of studies have been conducted on microfinance services. Copstake (2011) did a study on the impact of microcredit on poverty in Zambia. The program was not directed towards the poorest business operators but one third of the clients who were below national poverty line. Those who graduated from their first to a second loan on average experienced significant higher growth in their profit and household income, as compared with otherwise similar business operators. The borrowers also diversified their business activities more rapidly. However some borrowers were worse off especially among the 50% or so who left the program after receiving only one loan (Fatai, 2009).

Alarape (2007) did a study to examine the impact of owners/managers of small business participating in entrepreneurship programs on operational efficiency and growth of small enterprises in Nigeria. The study was a cross-sectional analysis of impact of exposure of owner's managers of small businesses on their performance of operational efficiency and growth rate. The data was collected from primary and secondary sources. Both descriptive and inferential statistics were employed for the analysis. The findings were that small business whose owners, managers had experience of participating in entrepreneurship programs exhibited superior managerial practice, had higher gross margin rate of growth than small businesses whose owner managers did not have superior experimental learning. This had a practical implication that there is need to improve managerial practice of small businesses through exposure of owners/managers to entrepreneurship programs in order to enhance their performance and transition to medium and large business(Fatai, 2009).

**SMEs Performance:**

Strategic Performance Management refers to the use and design of PMS to manage organizational performance. As such, it comprises of "formal and informal mechanisms, processes, systems and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change" (Patton & Marlow, 2012). Appendix 1 summarizes the definitions of core constructs in this study. Beyond ex-post measuring performance, this approach is concerned with the ex-ante management of performance (Von Pischke, 2011).With PMS providing multi-perspective indicators that increase an organization's focus on value adding activities (Von Pischke, 2011).

However, a firm that manages its performance using measures may not necessarily qualify as one that applies Strategic Performance Management. This is because the PMS requires a clear cause-effect linkage with firm strategy (Patton & Marlow, 2012). As such, Strategic Performance Management facilitates the definition and achievement of strategic objectives (e.g., Hall, 2011; Lillis, 2002), links strategy with operations (Patton & Marlow, 2012), and supports alignment of behaviors and attitudes with an organization's strategic direction Nilsson (2010).

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SMEs are different from large companies and these differences affect Strategic Performance Management. Such differences are rooted in the two defining characteristics of an SME: firm size and ownership structure, with the owner taking the central role. SMEs greatly differ in the extent to which the owner's attitude and capabilities directly affect the organization, as well to which human resources and capital are available. These characteristics are inherent to an SME and distinctive to large companies. They can constitute additional characteristics that are common but not essential. For example, SMEs tend to have informal, dynamic strategies. However, this does not necessarily apply to all SMEs as some SME managers see value in formal strategic planning (Nilsson, 2010).

The loan interest rates of MFIs are generally supposed to be lower than the interest rates given by commercial banks. But in reality this is true only for MFIs which are receiving grants or donations. MFIs which want to be self-sufficient are forced to set much higher interest rates as they must rely on their own sources. 33 There are some efforts to find balance and offer best-fitting interest rate. For example, an appropriate interest rate could be set up at the level separating people able of accessing commercial bank's loans from people not being able of that. At the same time, excess loan demand must be prevented ensuring that the loans are allocated effectively rather than based on sympathy or political pressure. It is evident that fulfilling such a task is difficult, even impossible. Concerning clients‟ reaction, even if commercial banks offer interest rates lower than for-profit MFIs do, low-income clients still cannot meet their requirements. The only possibility the low-income clients have is to take the loan at a higher interest rate with achievable conditions. Ultimately, they are likely to pay more for service fitting better their needs. Because the low-income people have limited credit possibilities, MFIs can take advantage of their lower price-sensitivity in contrast to higher-income population. In addition, informal money lenders are used to lend money at significantly higher cost as they are not tied with any rules. In this case, the risk linked with absence of any formal agreement must be taken into account (Fatai, 2009).

The purpose of MFIs is to serve in rural poor areas, but in practice, they tend to be oriented on wealthier clients from more accessible urban regions since the costs for operating in remote villages with low density are too high. Also commercial banks believe that providing small-scale financial services at the local level is unprofitable. As a result, rural regions lack sufficient banking and poor individuals cannot access loans since the remaining banks are expensive due to market dominance and placed strict conditions. However, these poor individuals can still borrow from informal sources such as moneylenders, shopkeepers, neighbors or relatives (Nilsson, 2010).

**Critique of Existing Literature:**

In the process of ensuring that MFIs properly and efficiently cater for the growth needs of SMEs from TransNzoia County, proper facilitation, ensuring efficiency, training and eventually striving to ensure the growth of the SMEs stands out as the most popular techniques. However, other techniques like ensuring ample liquidity in the sub-sector are also observed as being essential. Some advantages of these techniques are: ensuring enlightened entrepreneurs who efficiently implement and navigate the SME sector with a reliable rate of success and the SMEs also enjoy the advantage of facilities like loans, insurance products and outreach products that enhance the growth of the SMEs thus eventually ensuring growth. The difficulties experienced by the MFIs are usually finance related, for example, sourcing for finances to cater for the facilitation of the SMEs like loans and Insurance products and the high interest rates set about by most MFIs seem to hinder finance accessibility by the SMEs.

**Research Gaps:**

From the above literature, it is clear that the SMEs sector growth is dependent on the efficiency, training, ensuring growth of the SMEs by the MFI and facilitation of the SMEs by Faulu bank micro-finance. Further to improving the economy, it is clear that micro-finance sector`s means for growth is not only the mentioned techniques or variables as shown by various studies, micro-finance institutions also require a wide range of financial, business development, social services for different business and household purpose to assist the growth of SMEs in TransNzoia County. Access to these financial services or related services thus stands out as an essentiality here. It is also clearly visible that the area of inflation as it relates to capital budgeting techniques is not highlighted in the literature. Do inflationary tendencies play a role in the selection of capital budgeting technique to influence growth of SMEs in TransNzoia County? This said area should thus be reviewed and researched further.

Microenterprises are naturally short lived, since the opportunities themselves may be fleeting. For example, the provision of satellite communication services to a village by an entrepreneur is an opportunity until the arrival of widespread cell

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phone infrastructure (Bayes, 2011). Therefore, large scale empirical research on the impact of the social network dynamics of borrowing groups on the incidence of serial entrepreneurship by members of the group may represent a theoretically richer direction.

**Summary of Literature:**

This chapter looked at the theoretical review, empirical review and the conceptual framework. In theoretical review, the researcher looked at the theories which act as the foundation of the study. The study paid emphasis on Ishikawa's Theory, Provisional Theory of Consistency, and The Agency Theory. The major contribution from the theories is that determines the relationship between Microfinance Institutions and SMEs relevancy to the clientele (SMEs), organizational structure, the management and the third party. It defines the relevance of these theories.The empirical review looked at the challenges faced in ensuring that the MFIs efficiently and effectively assist in the growth processes of the SMES. In the conceptual framework, the researcher identified both the dependent and independent variables in the study.

## 3. RESEARCH METHODOLOGY

***Introduction:***

Methodology of this study was bound to describe how the study was to be conducted. This Chapter discussed the overall methodology that was used in the study; that is the research design, population, sampling techniques, sample size, data collection instruments, data analysis and presentation.

***Research Design:***

The study adopted a descriptive research design and it involved gathering of facts opinions and views of staffs on how MFIs like Faulu bank influence the growth of SMEs. Khan, (2013) recommended descriptive research design for its ability to produce statistical information. There were two sets of variables in the study namely the independent and the dependent variables. This type of survey was suitable where data was given over a particular period of time.A case study is a study where data is collected from members of a sample for the purpose of estimating one or more population parameters, (Jaeger, 2012).Descriptive research designs was used in preliminary and exploratory studies to allow the researchers gather information, summarize, present and interpret data for the purpose of clarification (Orodho, 2013).

***Target Population:***

Mugenda and Mugenda (2008) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The total population of the study was four hundred and twenty (420) spread across 70 SMEs in the County.

**Table 3.1 Target Population**

| **Rank in the SME** | **Population Size** |
|---|---|
| Ownership | 70 |
| Senior employees | 138 |
| Junior employees | 212 |
| **Total** | **420** |

***Sampling Frame:***

A sampling frame is a set of information used to identify a sample population for statistical treatment. A sampling frame includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis.

The study used a sampling frame consisting of SME Ownership level, senior employees and junior employees at the 70 different SMEs catered for by Faulu bank MFI Trans Nzoia County branch.. This study used stratified random sampling to select the 30% of the target population. According to Mugenda and Mugenda a sample size of 30% is a good representation of the target population. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample.The sample size of this study will therefore be 126 respondents.

**Table 3.2 Sample Size**

| Rank in the organization | Population Size | Sample Size (30%) |
|---|---|---|
| Top Management | 70 | 21 |
| Middle Management | 138 | 41.4 |
| Junior Management | 212 | 63.6 |
| **Total** | **420** | **126** |

***Data Collection:***

Data collection itself involves administering instruments as well as gathering and organizing responses and measures for analysis (Denzin& Lincoln, 2010). The choice of a data collection method is a critical point in the research process. According to Aggarwal (2009), research projects examine the interface between science and technology, and society often requires the collection of social data. Primary data was collected using questionnaires, which was handed to the respondents of the targeted SMEs, while secondary data was collected through reviewing records and written literature on SME growth techniques through the utilization of MFIs.

***Pilot test:***

Pilot Study is the administration of the data collection instrument with a small set of respondents from the population for the full scale survey Mugenda (2010). To ensure that the data collected was valid thus relevant to the problem of the research study expert validity views and suggestions of the supervisors was initially incorporated in the questionnaires which were aimed at capturing specific information from the respondents. Then the instrument were pilot tested with two similarly situated respondents within the SMEs.Around twenty questions were put to the respondents. As a result of the pilot testing, minor modifications were made to the structuring of questionnaires. (The pilot test was used to modify the questionnaire through a simulated pilot testing process. The result was a questionnaire that was more in touch with the realities on the ground). The results of the pilot test was utilized by the researcher in case any of the other SMEs are not forthcoming with information from their firms. It will act as a backup.

***Reliability:***

The reliability of the questionnaires was measured statistically using Cronbach's alpha. Internal consistency techniques was applied using Cronbach’s Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicates good reliability (Mugenda &Mugenda, 2003).

**Validity:**

Validity can be defined as the degree to which a test measures what it is supposed to measure (Mugenda&Mugenda, 2003). After developing the questionnaires, the researcher conducted a pilot test to test the validity of the instrument. To establish the validity of the research instrument the researcher sought the opinions of experts in the field of study especially the supervisor. This helped to improve the validity of the data collected.

***Data Processing and Analysis:***

Marshall and Rossman (2009) describe data analysis as a process of bringing order, structure and meaning to the multitude of collected data. Quantitative data, which was collected using structured questionnaires, and analyzed using the Statistical Package for Social Scientists (SPSS), which offered extensive data handling capability and numerous statistical analysis routines that analyzed small to very large data statistics and generated descriptive statistics (Muijs, 2011). The qualitative data was organized according to answers to open ended questions in the questionnaire and analyzed through content analysis. According to Mujis, (2011) content analysis is the process of analyzing verbal or written communications in a systematic way to measure variables qualitatively.

Presentation of data was in form of Tables, Pie-charts and Bar graphs only where it provided successful interpretation of the findings. Descriptive data was provided in form of explanatory notes.To test whether the MFIs have an impact or

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effect on the performance of SMEs by Faulu bank MFI in TransNzoia County, regression analysis was used in the data analysis process using the regression model. Regression applications in which there were several independent variables.

Multiple regression model was used to determine the importance of each variables with respect to the growth of SMEs.

$Y= \beta_0+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+ e$

Y=SME performance. .

$\beta_0$=Coefficient of regression.

$X_1$=Payback Period

$X_2$=Finance Literacy Training.

$X_3$=Prudential Efficiency.

$X_4$=Facilitation.

e=error term.

## 4. RESEARCH FINDINGS AND DISCUSSIONS

**Introduction:**

This chapter presents the results and findings of the study based on the research objectives. The data was collected and analyzed using Statistical Package for Social Science (SPSS) model. Section 4.2 deals with general information.

***General Information:***

**Table 4.1 Response Rate**

| | | Frequency |
|---|---|---|
| Valid | 20%-50% | 1 |
| | 50%-70% | 5 |
| | 70%-100% | 120 |
| | Total | 125 |

From the respondent's data above, it is clearly observable that there was a respondent response from majority of the respondents was between 70% and 100%representing a frequency of 120. A minority of the respondents being between 20% to 50% representing a frequency of one respondent.

**Demographic:**

**Table 4.2 Age**

| | | Frequency |
|---|---|---|
| Valid | 18-25 | 32 |
| | 26-35 | 64 |
| | 36-40 | 20 |
| | 41-50 | 10 |
| | Total | 125 |

There were different categories of ages that participated as respondents in the questionnaire. The number of respondents with the age of 26-35 years was the most prevalent in the study. Here, there were 64 respondents while the lowest age category was 41-50 years which only had 10 respondents.

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**Gender:**

**Table 4.3 Gender**

| | | Frequency |
|---|---|---|
| Valid | MALE | 72 |
| | FEMALE | 54 |
| | Total | 125 |

The respondents in the gender section i. e. between male and female were 72 males to 54 females.

**Education:**

**Table 4.4 Education Level**

| | | Frequency |
|---|---|---|
| Valid | Secondary | 42 |
| | College | 60 |
| | University | 24 |
| | Total | 125 |

The respondents to the questionnaire represented educational levels of secondary, college and university i. e. 42 respondents were of secondary school level, 60 respondents were of college level while 24 respondents were of university level.

**Employment:**

**Table 4.5 Employment Years**

| | | Frequency |
|---|---|---|
| Valid | 1-3years | 34 |
| | 4-6years | 62 |
| | 7-9years | 18 |
| | 10 and above years | 12 |
| | Total | 125 |

There were different categories in terms of years of employment. The category that had the most respondents was the one with employees who had worked for 4-6 years and the one with the least respondents was the one with employees with 10 years of employment and above.

**Respondent Category:**

**Table 4.6 Respondent Category**

| | | Frequency |
|---|---|---|
| Valid | SME Ownership | 44 |
| | Senior employees | 64 |
| | Junior employees | 18 |
| | Total | 125 |

There was the category of SME Ownership, senior employees and junior employees whereby 44SME Owners, 64 senior employees and 18junior employees responded to the questionnaire. System missing values are values that are truly absent from the data.

***Pilot Results:***

The number of cases in the pre-test was 15, a 12% of the proposed study sample size of 126 as recommended by Mugenda and Mugenda (2013). Cronbach alpha was used to test the reliability of the questionnaire (tool) used in this study. Values

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range between 0-0.1. While 1.0 represents perfect reliability. The value of 0.7 is deemed to be the lower level of acceptability. The reliability statistics for each of the identified factors was in table 4.6. itis evident from table 4.1 that Cronbach alpha for each of the identified factors is well above the lower level of acceptability 0.70. The results indicate that the questionnaire used in this study had a high level of reliability. The table indicates that each of the items relates to the identified factors and the coefficient alpha value of the identified factor will not increase if some of the items are left out.

**Table 4.7 Payback Period**

| | | SD | D | U | A | SA | Total |
|---|---|---|---|---|---|---|---|
| PBP Utilization | | | | | | | |
| | Percent | 0.8 | 3.2 | 17.5 | 34.9 | 43.7 | **100** |
| Periodic evaluation | | | | | | | |
| | Percent | 0.8 | 4 | 15.1 | 30.2 | 50 | **100** |
| High Utilization | | | | | | | |
| | Percent | | 0.8 | 11.1 | 43.7 | 44.4 | **100** |
| SME enhance | | | | | | | |
| | Percent | | | 7.1 | 55.6 | 37.3 | **100** |

The above results indicated that 0.8% of the respondents strongly disagreed with the statement that Periodic evaluation of Payback Period utilization in SMEs performed with appropriate scope and frequency can strengthen the organization`s financial health and growth. 3.2% of the respondents just generally disagreed with the above statement. 34.9% of the respondents were in general concurrence with the statement. The percentage of undecided respondents was 17.5%. Majority of the respondents strongly agreed with the above statement with a percentage of 43.7%.

The above results indicated that 0.8% of the respondents strongly disagreed with the statement that Payback Period utilization provides assurances that the organization or SME remains a going concern. 4% of the respondents just generally disagreed with the above statement. 30.2% of the respondents were in general concurrence with the statement. The percentage of undecided respondents was 15.1%. Majority of the respondents strongly agreed with the above statement with a percentage of 50%.

The above results indicated that 0.8% of the respondents disagreed with the statement that High utilization of Payback Period by SMEs represents the strong financial health of the organization. 43.7% of the respondents were in general concurrence with the statement. The percentage of undecided respondents was 11.1%. Majority of the respondents strongly agreed with the above statement with a percentage of 44.4%.

The above results indicated that 7.9% of the respondents were undecided with the statement that SMEs can enhance long-term investments through inculcating Payback Period information into the organization`s work processes. 43.7% of the respondents were in general concurrence with the statement. The percentage of respondents who generally agreed was the majority being 55.6%. The respondents strongly agreeing with the above statement with a percentage of 37.3%.

**Table 4.8 Model Summary**

| Model | R | R Square | Adjusted R Square | Standard. Error of the Estimate |
|---|---|---|---|---|
| 1 | .855[a] | .813 | .799 | .30051 |

a. Predictors: (Constant), (Constant), Financial Literacy Training, Facilitation, Prudential efficiency, Payback period.

b. b. Dependent Variable: SME Performance.

From the table above, 81.3% of the relationship between the MFIs and performance of SMEs in Trans Nzoia County is explained by the independent variables namely; Financial Literacy Training, Facilitation, Prudential efficiency, Payback period. The remaining 18.7% is the relationship by other variables.

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**Table 4.9 ANOVA[a]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 39.752 | 4 | 13.251 | 8.068 | .000[b] |
| | Residual | 29.997 | 122 | .160 | | |
| | Total | 69.749 | 126 | | | |

a. Dependent Variable: SME Performance

b. Predictors: (Constant), Financial Literacy Training, Facilitation, Prudential efficiency, Payback period.

The test of ANOVA was also carried out to test whether MFIs influence the performance of SMEs in Trans Nzoia County. When the test was run at 0.05 significance level, the p value was 0.000. If p value (0.000) is less than α (0.05) then the result is significant. Basing the confidence level at 95%, the analysis indicated high reliability of the results obtained. The overall ANOVA results indicated that the model was significant at F=8.068.

## 5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

**Introductions:**

This chapter presents the conclusions and recommendations of the study. It provides the summary of the study from the objectives, research methodology and results of the study. The conclusions are derived from the research findings. It also highlights the limitations of the study and recommendations.

***Summary:***

This section summarizes the findings of the study and it has been grouped into sections. Payback period is the time period through which an investment breaks even. It is thus generally clear that if there is a conducive environment for conducting entrepreneurial activities for the SMEs, there would thus be a rather short payback period which would have the ripple effect of increasing the performances of these SMEs.

Payback period has also been observed to be a finance saving capital budgeting technique. This is because a micro-finance enterprise will generally know when to expect payments of loans from it`s members. Getting to know the average payback period of loans will make the micro-finance enterprise save finances through not approving loans for individuals with a longer average payback period. The findings also showed that there were some positive correlations between some of the variables.

***Conclusions:***

The study has established the determinants of micro-finance solutions on performance of SMEs in Trans Nzoia County. Data have been analyzed by applying both descriptive and inferential. A significant percentage of the SMEs in Trans Nzoia County are beneficiaries of the micro-finance institutions loaning services. It can also be concluded that to obtain a loan one mostly needed to have guarantors which implied that most SMEs had guarantors who were financially stable to guarantee them for a loan. For those who did not have guarantors could access micro-finance institutions loaning services. It was also established that majority of the SMEs could not afford the collaterals in order to secure loans. This is a possible explanation for the low numbers of SMEs sourcing their capital from the micro-finance institutions. It was also established that the repayment procedures and rules influence the accessibility of micro finance institution loans for project development. The type of project also influenced accessibility of micro finance institution loans.

***Recommendations:***

In view of the findings made and conclusions drawn from the study the following recommendations are provided to help enhance an accelerated and sustained growth in the SME sector and also provide recommendations to help in the improvement of the services of micro finance institutions. There is need for the government and other partners to facilitate the accessibility of credit in SMEs to the Microfinance Institutions and minimize the collateral and guarantor conditions. Finally, the researcher recommended that in order to reduce the rate of default, microfinance institutions can research into very profitable business lines and offer credit to clients who have the capacity to exploit such business lines. SMEs should embrace savings on daily basis especially a percentage of the daily profit.

***Suggestion for Further Research:***

There is a need for further research to be undertaken the role of microfinance institutions to the economy of the country and also how they can contribute to the poverty reduction of the low income people. An assessment of the effectiveness of MFI sponsored credit programs for SME enterprises towards promotion of low income people in the country. In addition, it will be interesting to explore ways the government can promote the accessibility of SMEs on credit of Microfinance Institutions .Micro-finance access and poverty reduction in Kenya

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