Microfinance loans and Financial performance of Small and Medium Enterprises in Nyamira Town, Kenya

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Abstract

The critical role played by small and medium enterprises in growing economy cannot be underestimated. Small and Medium Enterprises (SMEs) are characterized by rapid growth and the potential to create employment and boost the GDP. Performance of Small and Medium Enterprises (SMEs) are signs of economic growth in many counties in Kenya and beyond. The objectives was to determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, Kenya. The hypotheses was: there is no significant effect of microfinance loans on financial performance of Small and Medum Enterprises. The study employed correlation research design. The target population was 550 registered SMEs as per register records Trade Department, in Nyamira County. The study sampled 232 owners of SMEs through stratified random sampling technique. Primary data was gathered by use of questionnaires. Data was analyzed by use of descriptive and inferential statistical methods. The study rejected the null hypothesis if the t-statistic value was significant. Validity and reliability of research instruments was tested by use of Cronbach's alpha co-efficient. Data was presented by use of tables and figures. The study will be of significance to the County Government of Nyamira so as to develop SMEs in the County for enhanced county revenue collection. The study results imply that microfinance loans has a positive and significant relationship on financial performance at 0.604. The study therefore rejected the null hypotheses and concluded that microfinance loan had a positive and significant effect on financial performance of SMEs in Nyamira Town. The study thus recommends that SMEs should consider taking loans so as to expand their business and enhance financial performance. This can be undertaken through; favourable loan repayment terms by financial institutions and reduction of loan application fees. It is also recommended that SMEs should insure their business and expand their savings so as to realize improved financial performance.

Keywords: Micro finance loans, Financial Performance, Small and Medium Enterprises

1.0 Background of the Study

The critical role played by small and medium enterprises in a growing economy cannot be underestimated. Small and medium enterprises (SME's) are characterized by rapid growth and the potential to create employment and boost the gross domestic product (GDP) of and economy (Aremu and Adeyemi, 2011). Studies indicate that SME's play a similar role even in developed economies. Developed countries like Japan and Taiwan credit the stability of their economies to their large SME sectors, Switzerland a highly developed country recorded a 2% to 2.5% growth rate each year from 2008 through to 2012 (Guo and Woo, 2016).

Economic stability experienced by Switzerland is credited on the fact the country has invested significantly on efficient small and medium sized companies (SME) alongside the large, competitive multinationals. The situation was different from the rest of Europe which had much of its investment in large multinationals that focused on the export market (Guo and Woo, 2016).

In Africa the contribution of the SME sector to creating opportunities is very significant. Its contribution of the informal sector, is especially large accounting for about 75% of total employment in manufacturing (Giaoutzi, Nijkam and Storey, 2016). The significance of SMEs in Kenya highlight the SME sector as an engine for employment and income growth. SMEs count for nearly 85% percent of employment (Cagno and Trianni, 2013). Financing for SMEs in developing countries like Kenya is mainly concentrated on bank loans, micro finance institutions and trade credit (Gbandi, and Amissah, 2014).

According to Rungani (2009) commercial banks are a principal source of finance for SMEs'. Commercial banks offer SMEs' a wide range of services   through wholly or partially owned subsidiaries.

In other cases SMEs who are the members of SME representative societies or enterprises such as the Chamber of Commerce youth group or women group have a high probability of accessing finance from the financing organizations. According to Pandula (2011) these societies have close contacts and relationships with SME owners/managers and are aware of the problems and needs of their members. Therefore, these societies and other business associations can play a key role in assisting their members to access bank loans from banks (Pandula, 2011). However, access to credit is still a challenge to most SMEs, especially those in developing economies and it is also still a key issue both within the private and public sector. In Kenya, the lack of adequate access to credit is the leading factor stifling the good performance of small and medium enterprises (Wanjohi and Mugure, 2015).

Hogan (2010) asserts that the financial sector focuses its success on the effective management of credit risk. Most economic enterprises in Kenya and East Africa however fall under the informal sector which is characterized by fluctuating income and may be hard to monitor making them non -viable loans for the banking sector. Micro entrepreneurs also engage in economic activities which may yield a low turnover. Very demanding requirements, in addition to the bureaucratic lending procedures by the financial institutions is the biggest challenge to credit access by SMEs. This has led most SMEs to resorting to informal financial institutions such as savings and loans companies, friends and relatives which may not be sufficient leading to creation of savings and credit groups like chamas (informal savings groups among families, friends or business people sharing similar interests). These organizations fall under the Umbrella group referred to as Micro Credit Institutions (MCI's).

The importance of Micro and Small Enterprises in the economies has been recognized by many including Kenya Economic Survey (2017).The creations of Government policies for SMEs vary from advanced economies to developing countries and from country to country attributed to variations in social and custom values, the extent amount industry and business settings (Naudé, Szirmai and Goedhuys, 2011). Sathe (2016) in particular argues that Government regulations and their bureaucratic procedures can hinder as well as facilitate SMEs activity such as new business origination. The Government can come up with policies that can boost and support the good performance of products. On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety.

Collateral is defined as security for loans which protect the lender if the borrower defaults (Indersta and Mueller, 2007). Increase in enterprise's collateral relaxes the credit constraints faced by the firm, facilitating the firm to borrow more. A well-developed microcredit system can help SMEs to access affordable credit services particularly if the collateral requirement is affordable (Alhassan and Hoedoafia, 2016). According to their gross loan portfolio, the five largest institutions include Equity bank which is a licensed commercial bank that provides financial services.

Rafiki Microfinance Bank Limited is the premier relationship microfinance institution that began operations in 2011. The microfinance provides emergency loans, which are quickly available. Most of small and medium enterprises do not have access to finance due to lack of minimum requirements from commercial banks in Kenya, most commercial banks have been hesitant in lending to the small business due to lack of collateral, credit history, financial statement and banking history. Access to final finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities Kauffmann, (2010). In a study, Atieno (2016) found that although informal finance provides easier access to credit, it is confined to specific activities and at lower levels of income, thus limiting its use. Banks need to address the needs of these SMEs so that they can post good performance and therefore be a major driver in the growth of the economy. Banks such as Kenya commercial bank, Co-operative bank, Equity bank and Micro finance institutions line Rafiki micro finance have tailored their products to suit the surging demand for different loans and micro credit.

Kenya Women Microfinance Bank (KWFT) serves a unique market niche as reflected in the Institution's slogan 'Banking on women'. With 80% of KWFT's clients residing in the rural areas, the Institution has made a deliberate effort to reduce inequalities and enhance financial inclusion by ensuring that its operations reach far and wide to provide equal opportunities to all women and their families around the country. Performance is an important variable in business research as noted by (Rosenbusch, Rauch and Unger, 2015). Irrespective of the differences among researchers on what the definition of performance is, they agree that it is mostly tied in with arithmetic means for success. The SME firm performance is regulated along the lucky outcome of firms in the market, each domestically, and globally.

1.1 Statement of the Research Problem

The provision of financial services, especially credit and saving facilities plays an important role in the development of the economy. Despite the efforts of microfinance institutions to take the conventional formal financial system, growth and expansion of SMEs sector had not shown any sign of growth and development (Kenya Economic Survey, 2009).Despite the efforts of microfinance institutions such as Kenya Women Finance Trust and Equity Bank among others to take microcredit

within the reach of poor people and SMEs, who have still not benefited from the conventional formal financial system, the SMEs sector had not shown any sign of better performance and expansion.

It is in this context that the study sought to establish the Micro Credit Finance and the performance of SMEs. In Kenya many SMEs' are left un-attended to due to the Kenya limited finances available (Akinyi, 2009). Although the Microfinance Act of 2006 which incorporates amendments up to 1st January 2014, stipulates the operations of MCIs in Kenya many SMEs have not accessed lending and those that have acquired loans from Micro Credit Institutions find it expensive to pay (Makokha, 2016). Small scale businesses that have accessed credit are still making losses (Kauffman, 2015). It appears that even though there is the access the funds are either mismanaged or used for other purposes other than the intended ones. However, some businesses survive and grow in terms of market share and market stability as a result of these micro-credit services availed.

Although there has been improved access to credit by SMEs overtime, SMEs have continued to suffer financial challenges. For this study, existing researches indicate that 50% of the SMEs operate in a financial deficit and some of the SME owners are still uncomfortable with such credit extended to them (Sendawula, 2012). The SMEs have registered a low return on capital employed, low net profit margin and kept a small capital size and some of them fail to run their daily operations because they do not have the capacity to maintain adequate liquidity levels (Chowdhury, 2016).

As such, the relationship between the Micro Credit Finance and SMEs keeps on deteriorating due to failure to fulfill their loan obligations (O'Brien 2017). This could be due to the stringent credit terms to include interest rates, collateral securities and loan repayment schedules among others which seem to frustrate businesses financially. Therefore, this study sought to establish the effect of micro credit finance and financial performance of small and medium businesses in Nyamira Town, Kenya.

1.2 Objectives of the Study

To determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, Kenya.

1.3 Research Hypotheses

H_{o1}. Microfinance loan has no significant effect on financial performance of SMEs in Nyamira Town, Kenya.

1.4 Significance of the Study

The study will be useful to SMEs in assessing the impact they have had in financing SME's and provide a platform for future innovations in the financial sector to facilitate their contributions to the SME sector.

The study will provide information on debt rating of SMES, and conditions for SME and entrepreneurship financing that may be resourceful for policy makers in the financial sector to come up with more suitable financial solutions for SME's

Researchers will be able to use this document as a source of information in future studies when examining performance of SME's as a result of micro credit finance.

1.5 Conceptual framework

This shows the relationship between the Micro Finance loans and financial performance of the small and medium enterprisers
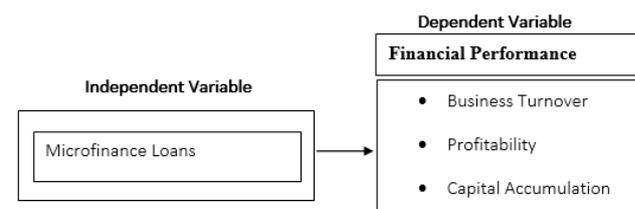

Figure 1.1: Conceptual Framewor
Source: Authors own self conceptualization 2019

2.0 Literature Review

2.1 Introduction

This chapter presents pertinent literature related to this study. The theoretical framework reviews the theories that underpin the study. This is followed by theoretical review of study concepts. The empirical literature discusses the relationship between the study variables. Finally, the study discusses the literature review matrix.

2.2 Theoretical Framework

The study will be guided by three main theories. These theories are Financial Sustainability Theory, Games Theory of Microfinance, and Women Empowerment Theory. Financial sustainability theory was the main theory anchoring the study because micro finance credit are majorly meant to sustain the SMEs financially for a long period of time.

2.2.1 Financial Sustainability Theory

Long-term survival and sustainability is critical for an MFI in being able to reach its target clientele and cover administrative and other costs. While social goals of financing SMEs are valid, sustainable standing on one's own feet is as true for SMEs receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while

external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch, 2016). This study anchored the general study objective and by extension objective two and three. For business to be sustainable for a loan future, they rely on loans and savings which are products of micro finance credits. Sustainability is measured in terms of continuous financial performance of SMEs.

2.2.2 Games Theory of Microfinance

The microfinance games theory also supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves. It is based on Grameen lending model of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven. Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network (Ledgewood, 2009). Since game theory is on group leading, it supports study objective one on microfinance loans for financial performance of SMEs.

2.2.3 Women Empowerment Theory

Cheston and Kuhn, (2013) propagated the theory of empowerment. The theory indicates that women account for nearly 74% of the more than 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent payment recormds in spite of the daily hardships they face. Financial self-sustainability paradigm: The main consideration in programme design is provision of financially self-sustainable microfinance services to many SMEs. The focus is on setting of interest rates right to cover costs, to separate microfinance from other interventions, to enhance separate accounting, to expand programmes so as to capture economies of scale to use group to decrease cost of delivery.

The main considerations in financing SMEs are poverty reduction among the small and medium businesses, increased well-being and community development. The focus is on small savings and loans, provision for consumption and group formation. The assumption is that increasing women's access to microfinance increase household income which then translate into improved well-being and enable women to bring about wider change in business of SMEs (Khan, 2015). The theory propagates for women involvement in business hence encourages taking of loans and insurance thus guides objective study objective three and four.

2.3 Theoretical Review

2.3.1 Growth and Development of SMEs

SMEs play a key role in the world economy and contribute substantially to income, output and employment. However, the recent global financial crisis created a particularly tough climate for SMEs, with a reduction in demand for goods and services and a contraction in lending by banks and other financial institutions. They make a huge contribution to gross domestic product (GDP) and employment. The global financial crisis of 2008, however, created new challenges for SMEs. The small and medium enterprises, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari, 2016)

Japan has the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises. India, according to its Ministry of small and medium enterprises, had 13 million SMEs in 2008, equivalent to 80% of all country's businesses. In South Africa, it is estimated that 91% of the formal business entities are SMEs (Quarterly, 2010). The contribution made by SMEs does vary widely between countries and regions. Nevertheless, although they play key roles in high-income countries, SMEs are also important to low-income countries, making significant contributions to both GDP and employment. They are also major contributors to innovations in economies, partly through collaboration with the larger corporate sector (Ayyagari, 2017).

2.3.2 Financial Performance

SMEs performance may be measured using objective, subjective, or operational measures (Schayek, 2011). Richard, Devinney, Yip and Johnson (2008) suggest the goal approach as a composite measure of SME performance. The goal approach measures performance using financial (objective) and non-financial measures (subjective) measures. Financial measures of performance can be referred to as the results of a firm's operations in monetary terms (Business Directory 2011). Financial measures of performance are derived from the accounts of a firm or can be found in the firm's profit and loss statement or the balance sheet. Financial measures are also referred to as objective measures because they can be individually measured and verified (Kellen, 2003).

Profitability Growth is the growth in the profits of a firm. Profitability growth can also refer to the continuous increase in the financial profit after all expenses have been paid over a given period on time (Business Dictionary, 2011). An increase in the profitability of a firm is an objective measure of performance as it shows that the firm is continuously improving. Sales growth refers to

an increase in sales over a specific period of time, usually but not always annually. Delmar, Davidson and Gartner (2003) suggest that if there is one measure of SME performance that could be used then it has to be sales growth. Schayek (2011) argues that most SME owners/managers are very sensitive about disclosing information relating to their firm's financial performance. In addition Watson (2007) suggests that because most SMEs are not required to report and publish their financial records, it is difficult to obtain, directly, the financial figures on sales and profitability of most SMEs. Therefore, most research studies such as Lechner, Dowling and Welpe (2006) and Watson (2007) have developed the use of a five point Likert scale which measures sales growth and profitability growth as financial performance measures. A similar technique is used by Sawyerr et al. (2003) Thrikawala (2011) and Watson (2011). This approach is implemented as it avoids the direct approach of asking for sales or profitability figures but infers the performance, indirectly, through the responses on the level of satisfaction with sales and profitability growth of the firm. However, it is important to note that sales and profitability growth should not be viewed in isolation as profits and sales may increase as a result of some underlying factor such as price increases or sales promotions, respectively, and not due to the improved performance of the firm or its products.

2.4 Empirical Review of Literature

2.4.1 Microfinance Loans and Financial Performance

Lack of access to finance has been identified as one major constraint to growth of SMEs (Anyawu, 2013). According to Lawson, (2015) the extent to which SMEs can access fund is the extent to which the SMEs can save and accumulate own capital for further investment. The insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of micro and small business failure. Access to credit enables the SMEs owner to cover some or all of the cost of capital equipment, expansion, or renovation of buildings. According to a study by UNDP (2016) the SMEs in Kenya were able to acquire fixed assets and technologies using Micro credit. Makokha, (2016) revealed that inadequacy of capital hindered the performance of businesses. The study further found that larger loans enabled SMEs to graduate to medium enterprises.

Muthengi (2012) conducted a study on the impact of microcredit on the growth small and microenterprises in Kitui District. His findings were that 80% of the sampled population used credit before. The result also showed that microcredit had impacted positively on the growth of SMEs in the District. The study recommended that the government should improve the existing facilities and establish those which are lacking in order to better the working atmosphere and hence performance of SMEs operating in the district. Pius (2010) investigated on the influence of microcredit finance on the growth of small scale women entrepreneurs in Kenya. She used survey research designs to conduct the study. The target population as the small scale women entrepreneurs in Mosocho division, Kisii central district. The sample study constituted 36 respondents out of 120 entrepreneurs spread over three markets. Simple random sampling technique was used to determine the study sample. The research findings revealed that the small-scale entrepreneurs faced problems in operating their businesses

In contrast, other studies have found a negative relationship between the impact of microfinance loan services and the growth of SMEs. For instance, Babajide (2012) assessed the impact of microfinance services on the growth of SMEs in Nigeria. The study used loan size, loan tenor, microloan, micro-saving and interest rate as the microfinance services (independent variables). The study found a dynamic indication that, access to microfinance facilities such as frequency of loan repayment, loan duration, loan size does not improve growth of SMEs in Nigeria (negative impact). Also, Ene and Inemesit (2015) examine the impact of microfinance in promoting financial inclusion in Nigeria. The study measures loans and advances, deposits (savings) and interest rate on loan. The study found insignificant and negative relationship between the interest rate charged on loan of microfinance to SMEs.

3.0 Research Methodology

3.1 Research Design

It is a detailed blueprint used to guide a research study towards its objectives. Explanatory and Correlational research designs were used in this study to establish whether there is an effect of microcredit finance on financial performance of SMEs, this is because it minimizes biasness in the collection of data.

3.2 Study Area

This study was conducted in Nyamira Town which is the headquarter of Nyamira County. The researcher selected SME in Nyamira Town because most of the SMEs are concentrated in the town as a result of high number of customers, good communication, transport, security and infrastructure network. The study focused on SMEs engaged in manufacturing, trade and service businesses. The study was carried out for a three-month period from July to September, 2019. The sample of the study was based on the registered SMEs in Nyamira Town, Kenya which according to statistics is 550.

3.3 Study Population

The population of the study comprised of the registered 550 SMEs that are based in Nyamira Town. The SMEs

were drawn from the manufacturing, trade and service sectors.

3.4 Sample Size and Sampling Techniques

A sample size is the total number of the respondents picked for the study from the target population (Bryman, 2012). Since the target population, **N**, is known, the study used Yamane (1967) formula to determine the sample size, **n** from the study population **N** and **e** is the probability of error. The target population of 550 thus generated a sample size of approximately 232.

$$n = \frac{N}{1 + N(e)^2}$$

Hence given the population as 550, the sample size was calculated as follows'

$$n = \frac{550}{1+550(0.05)^2}$$

Table 3.1: Sample Size Distribution

Population Unit	Target Population	Sample Size
Manufacturing SMEs	164	69
Trading SMEs	261	110
Service SMEs	125	53
Total	550	232

Source: Nyamira County Department of Trade and Industrialization (2019)

A sampling technique is the specific process used to select study participants or respondents (Saunders, Lewis & Thornhill, 2016). Stratified random sampling technique was used to select respondent population proportionally into three strata that is SMEs from trade, manufacturing and service sectors, and to pick the individual respondents who participated in the study. Since the sample size from each population is known, simple random sampling was used to choose the sample from the strata.

3.5 Data Collection Instruments

A questionnaire is a data collection tool in which each person is asked to respond to the same set of questions in a predetermined order. It is generally considered to be a superior form of data collection as the researcher formed a system of data collection very specific to the research being undertaken (Murphy, 2015). The researcher used questionnaire to collect data from owners of the SMEs in Nyamira Town.

3.6 Piloting

A pilot study was carried out to test the validity and reliability of the data collection instruments in order to ensure that the items in the questionnaire. The researcher administered 23 questionnaires to SMEs owners in Kakamega Town which was 10% of the sample size.

3.7 Reliability and Validity of Instruments

3.7.1 Validity

Validity indicates the degree to which an instrument measures what it is supposed to measure. The study determined three main types of validity of the instruments, that is, face, content and construct validity. The researcher determined face validity of the instruments by ensuring that questionnaires are prepared in line with the conceptual framework in Figure 1.1 so as to capture all the study variables.

3.7.2 Reliability

Reliability is a measure that indicates the extent to which there is no biasness, therefore it ensures consistent measurement across the various items in the instrument (Sang, 2015).

From the pilot study data in Table 3.2, the researcher obtained that there was internal consistency of the research questionnaire used for data collection because the entire study variable had Cronbach Alpha values of above 0.7 and an overall value of 0.850.

Table 3.2: Reliability Statistics of Research Variables

	Cronbach's Alpha if Item Deleted
Microfinance Loans	.850
Overall	**.850**

Source: Pilot Data (2019)

3.8 Data Analysis and Presentation Techniques

The data collected was refined, coded and entered into the Statistical Package for Social Sciences. Data was analyzed using inferential statistics; regression analysis, and correlation, where relationship between the independent variable and the dependent variable was determined. Correlation analysis was used to determine the strength of relationship among the variables. Various tests were conducted on regression models to determine the presence of auto-correlation where Durbin Watson was used to test whether variables are highly correlated or not. SPSS aided the analysis of data. Data was presented using frequency distribution tables and figures. The regression model used in the research was as shown below:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ ..... *Model*
Where:
Y = Dependent variable (financial performance)
β_0 = Constant term
X_1 = Microfinance Loans

4.0 Results and findings

4.1 Descriptive Statistical Analysis

The study sought to establish the effect of micro credit finance on financial performance of Small and Medium Enterprises (SMEs) in Nyamira Town, Kenya. The respondent responses were rated on a five-point Likert scale showing to what extent the respondents agree or disagree with the researcher statements on micro credit finance, business size and financial performance where: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree. The researcher used mean to interpret data as suggested by Bryman and Bell (2011), where mean <1.5=Strongly Disagree, >1.5-2.5=Disagree, 2.5-

3.5=Fairly Agreed, 3.5-4.5=Agree and >4.5 Strongly Agree. The researcher computed normality of the responses so as to test the normality of the study constructs using kurtosis and skewness. According to, George & Mallery (2010), if variable kurtosis and skewness values lies between -3.0 and +3.0, it is regarded to be close to normal.

4.1.1 Microfinance Loans

As part of the study objectives, the study sought to determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, Kenya. Table 4.6 illustrates the results.

Table 4.1: Microfinance Loans

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Bank loans easily accessible	187	3.0588	-.346	.178	.238	.354
Loan repayment terms very friendly	187	3.3797	-.979	.178	.166	.354
Microfinance provides the requested loan amount	187	3.4011	-1.195	.178	.698	.354
Total credit finance accessed through semi informal sector	187	3.0214	-.279	.178	.930	.354
Most financial institutions reluctant to provide SMES with long term credit facilities	187	3.2086	.046	.178	.138	.354
Application fees affects the cost of acquiring loans	187	3.0695	.034	.178	.392	.354
Valid N (listwise)	187					

Source: Field Data (2019)

The study results in Table 4.1 indicates that microfinance loan constructs skewness coefficient ranges from -1.195 to 0.046 and kurtosis coefficient ranges being 0.138 to 0.930. Based on these study findings, it can be concluded that microfinance loan constructs are normally distributed since they lie within the ±3 range recommended by George and Mallery (2010). The data is thus fit for descriptive statistical analysis and subsequent inferential analysis.

Table results depicts that most respondents fairly agreed (mean=3) that: Bank loans easily accessible; Loan repayment terms very friendly; Microfinance provides the requested loan amount; Total credit finance accessed through semi informal sector; Most financial institutions reluctant to provide SMES with long term credit facilities; and Application fees affects the cost of acquiring loans. In general, it can be deduced that microfinance loan availability and accessibility of SMEs in Nyamira Town is fairly adequate.

Effect of Microfinance Loans on Financial Performance

The study sought to test the first research hypothesis that was stated as:

H₀₁: Microfinance loans has no significant effect on financial performance of SMEs in Nyamira Town, Kenya. Table 4.2 illustrates the study findings.

Table 4.2: Effect of Microfinance Loans on Organization Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.604ᵃ	.365	.362	.55644

a. Predictors: (Constant), Microfinance Loans

ANOVAᵃ					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	32.929	1	32.929	106.349	.000ᵇ
1 Residual	57.281	185	.310		
Total	90.209	186			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Microfinance Loans

Coefficientsᵃ					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.064	.212		5.013	.000
1 Microfinance Loans	.674	.065	.604	10.313	.000

a. Dependent Variable: Financial Performance
Source: Field Data (2019)

Table 4.2 model summary results shows that there is a positive and significant effect of microfinance loans on financial performance (R=0.604). The results also illustrate that microfinance loans accounts for 36.5% of

the variability in financial performance of SMEs in Nyamira Town, Kenya (R^2=0.365). The ANOVA results show that F=106.349 and p=0.000. The overall results revealed that regression model was significant in determining the model applicability to measure the study variables. This means that there is a satisfactorily goodness of fit between microfinance loans and financial performance of SMEs in Nyamira Town, Kenya. The use of regression model to reject the research hypothesis was thus justified.

Based on the study beta coefficient results, simple linear regression model equation can be written as; $Y=1.064+0.674X_1+e$, where **Y**=Financial Performance, **X₁** represents Microfinance Loans and **e** represents error term. A beta results imply that for every 0.674 units of use of microfinance loans, there is a corresponding 1 unit increase in financial performance. Since the t-statistic was significant (α=0.000 and p-value=0.05 thus α<p-value), the study rejected the first null hypothesis and concluded that microfinance loans had a significant and a positive effect on financial performance of SMEs in Nyamira Town, Kenya. The study findings are consistent with that of Makokha, (2016) that found out that inadequate capital hinders the performance of organization.

5.0 Summary, Conclusions and Recommendations

5.1 Summary of the Findings

5.2 Microfinance Loans on Financial Performance

The study found out that most respondents fairly agreed (mean=3) that: Bank loans easily accessible; Loan repayment terms very friendly; Microfinance provides the requested loan amount; Total credit finance accessed through semi informal sector; Most financial institutions reluctant to provide SMES with long term credit facilities; and Application fees affects the cost of acquiring loans. In general, it can be deduced that microfinance loan availability and accessibility of SMEs in Nyamira Town is fairly adequate.

The study correlation results found out that there is a positive and significant relationship between microfinance loan and financial performance. The study findings on regression analysis found out that microfinance loan was a significant determinant of financial performance in SMEs in Nyamira Town thus availability and accessibility of microfinance loan results to an increase in financial performance. The study thus rejected the first hypothesis and concluded that microfinance loan has a a positive and significant influence on the financial financial performance of SMEs in Nyamira Town.

5.3 Microfinance Loans on Financial Performance

The study concluded that SMEs access and availability of microfinance loan is fairly adequate. This is hindered by loan repayment terms, loan application fees and reluctance of financial institution to provide SMEs with loans due to their high-risk profile. The study also concluded that there was a positive and significant relationship between microfinance loans and financial performance in SMEs in Nyamira Town.

5.4 Microfinance Loans on Financial Performance

Since microfinance loan leads to an increase in SMEs financial performance, the study recommends that SMEs should consider taking loans so as to expand their business and enhance financial performance. This can be undertaken through; favourable loan repayment terms by financial institutions and reduction of loan application fees.

5.5 Suggested Areas for Further Research

A study should be carried out mainly focusing on the effects of business size on the relationship between micro credit loans and financial performance.

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