Effect of Credit Financing on Financial Performance of Small and Medium Enterprises (Smes) in Thika Town, Kiambu County

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[1*]Joseph Makau David, [2]Dr. Lucy Wanjiru Njogu, PhD

[1*]MSc. Finance and Accounting,

Jomo Kenyatta University of Agriculture and Technology

[2]Lecturer, Department of Economics, Accounting and Finance

ORCID NO: https:0000-0002-3772-9212

ABSTRACT

Purpose: To determine effect that credit financing has on the financial performance of SMEs in Thika Town, Kiambu County.

Methodology: The study adopted a descriptive survey design and the targeted population was 468 registered SMEs in Thika town. A structured questionnaire was used to collect both qualitative and quantitative data. The quantitative data collected was analyzed for both inferential and descriptive statistics and the qualitative data from the open-ended questions were analyzed using content analysis.

Results: The study found that trade credit has a significant effect on financial performance of SMEs in Thika town (B=0.804; p=0.026) and that bank credit has a significant effect on financial performance of SMEs in Thika town (B=0.956; p=0.000). The study also revealed that micro-finance credit has a significant effect on financial performance of SMEs in Thika town (B=0.783; p=0.000) and that informal associations credit has a significant effect on financial performance of SMEs in Thika town (B=0.892; p=0.002).

Unique contribution to theory, policy and practice: The study concluded that bank credit had the greatest effect followed by informal associations credit, then trade credit while micro-finance credit had the least effect on financial performance of SMEs in Thika town. The study recommends that the Kenyan government should devise strategies of regulating and reducing interest rates in order to protect small and medium-sized enterprises (SMEs) from unfair shylocks who lend money at unsustainable high interest rates coupled with undisclosed fees.

Keywords: *Credit financing*, *Bank Credit, Micro-Finance Credit, Informal Associations Credit, Trade Credit, Financial Performance.*

1.0 INTRODUCTION

1.1 Background of the Study

Credit is one of the various aspects that business entities can utilize to increase demand for its goods and services and ensure users have more preference of the products. In this case, credit can be more beneficial to the entity when the profits generated from these sales exceeds the opportunity costs for the receivables (Baker, Pattnaik & Kumar, 2020). Benigno and Khristina (2018) described credit as a technique of transferring ownership of goods or services between parties in a transaction without immediate payment in exchange for a contractual agreement to pay later. However, credit in any firm needs some level of control, and even the banks also exercise a certain level of credit management when extending loans to SMEs. Effective credit management in a firm ensures that there is no late payment or no payment at all towards an existing loan (Baker, *et al*., 2020).

Globally, more than 90 percent of the established and well-known business entities in the world today are SMEs (Tambunan, 2019). A previous study by McKinsey and IFC in 2010 estimated the total number of SMEs globally to be about 400 to 600 million (Tambunan, 2019). The study also revealed that these SMEs were the most significant contributors to the GDP and for employment opportunities in developing and developed economies of the world (Tambunan, 2019). In the European Countries, SMEs comprise 99.8 percent of all enterprises, account for over 66 percent of the total export, employ over 70 percent of the workforce, and generate more than 56 percent of the private sector turnover. Also, SMEs play a domineering role in the international economy by creating employment opportunities and enhancing the growth of GDP (Baker, *et al*., 2020).

Regionally, nearly 90% of all the entities in the African continent which are not involved in the agribusiness sector are MSMEs and greatly contribute to the nations GDP (Muriithi, 2017). According to Hassan, Aku and Habakuk (2017), 93% of Morocco's industrial enterprises are SMEs, contributing to 38% in production, 33% in investment, and 30% in exports. Further, In South Africa, approximately 91% of the formal entities are SMEs and contribute between 52% and 57 % to the country's GDP (Muriithi, 2017). Access to finance has been a significant obstacle to the general expansion of the SMEs sector in Africa. The availability of finances to SMEs in Africa was severely affected by the financial crisis in year 2008 and which was consequently followed by a prevalent economic trough (Muriithi, 2017). Before the downfall, SMEs in most developing economies had been highly restricted in accessing the finance they required for their growth.

Locally in Kenya, SMEs are regularly believed to have limited access to deposits, customised credit facilities, and other financial related services provided by financial institutions. The reason is that most SMEs cannot meet the credit requirements demanded by lending institutions. Statistically, SMEs are reported to have high failure rates making it difficult for lenders to assess the viability of the enterprises' investment and that of the owner of the business and the subsequent

likelihood of repayment of the loans accurately (Ndemi & Mungai, 2018). SMEs growth in Kenya is a multidimensional model operationalized by a variety of growth measures which include an increase in sales volume, reduction in operations cost, increase in net profit, growth in the assets value, the number of skilled workers, and the increase in market share among other measures (Kinsella, Well, & Cart, 2017).

1.2 Statement of the research problem

In Kenya, the SME sector is widely regarded as the crucial driving force of the country's economy. As per a 2019 economic survey conducted by KNBS, small and medium-sized enterprises constituted 98% of all business entities in Kenya. The SME sector is heavily relied upon as an essential growth pillar for the government in realizing the national development agenda as laid out in the blueprint Kenya's vision 2030 (KNBS, 2019). According to Tekola and Gidey (2019), SMEs contribute about 49 percent of GDP in high-income countries and 29 percent in low-income countries. Nevertheless, In Kenya today, most SMEs do not survive long as per the expectation of the cofounders. A National Economic survey (KNBS, 2018) hinted that about 400,000 micros, small and medium enterprises (MSMEs) do not see their second birthday, and only a few reaches their fifth birthday (KNBS, 2018). The SMEs are often faced with challenges ranging from high competition, lack of innovation, poor infrastructure, lack of entrepreneurship knowledge and skills, lack of financing and capital, limited market access, unfavourable regulatory environment, and rapid changes in technology (Gichuki, Njeru & Ondabu, 2014).

Kinyua (2014) concluded that financial access would not on its own be enough to spur SMEs' growth in the country since other persistent challenges are hindering their growth. Consistently, Rono (2018) identified lack of credit finance as a major limitation discouraging the financial performance and expansion of SMEs. The government of Kenya has been taking measures to ensure that SMEs have access to financing through the introduction of economic stimulus. As envisioned in Kenya's blueprint vision 2030, the Kenya financial development and empowerment plans recognize SMEs as a pillar to achieving middle-income status nation. In recent years, the Government of Kenya and financial institutions have put measures to ensure SMEs' high survival rate and growth by enforcing legislation and policies that provide SMEs' sustainability and ease of access to credit finance facilities.

Njenga (2018) indicated that expansion of credit financing promises to increase SME performance by stimulating investments in businesses with capital rationing challenges. Researchers have provided differing evidence as to how borrowing enhances the welfare of SMEs and does not always necessarily increase output or enhance profitability, contrary to an economic view of credit access. Separately, various research topics surrounding SMEs' survival have singled out access to finance as the critical challenge inhibiting the growth and success of SMEs. In this regard, research studies by Gichuki *et al* (2014); Kinsella *et al*, (2017), and Makena, Kubaison, and Njati (2014) have all laid out access to finance as the apparent cause of SMEs failure in Kenya. Although the

research studies demonstrate a correlation between credit financing and the financial performance of SMEs in Kenya, and notably in Thika town, the focus of these studies were absolutely on different contexts and not specifically on credit financing. Further, none of the studies was conducted around Thika town in Kiambu County. Therefore, a geographical, empirical, contextual, and conceptual gap exists for this study to fill.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Several theories guided this study: the financing theory, information asymmetry theory, uniting theory of microfinance, and informal intermediation theory.

2.1.1 The financing Theory of trade credit

The financing theory originated in 1980s and was authored by Emery (1984). According to the theory, trade credit is a form of finance that is provided by the seller to the buyer. Invoices from the seller and acknowledgements from the buyer serve as proof of the items traded in trade credit, which can be either a formal agreement that is comparable to a bank loan or an informal agreement (Klapper, Laeven & Rajan, 2012). Critics highlight that the theory tends to overlook behavioral factors that influence trade credit decisions. The financing theory is inadequate in clarifying the reason why large corporations are inclined towards trade credit (Fisman & Love, 2003). Trade credit is a result of inefficiencies in financial markets, and even when financial institutions are effective, enterprises may not always have equal access to credit due to differences in how much risk they perceive themselves to be exposed to because of information asymmetry (Cole, 2018). The theory is relevant as it highlights how to determine the effect of trade credit on the financial performance of SMEs in Thika town, the finance theory was helpful.

2.1.2 Information Asymmetry Theory

Akerlof originally proposed the concept of information asymmetry in 1970. Akerlof's elementary argument was that buyers use some market statistics to measure the value of a class of goods and services (Akerlof, 2020). Thus, the buyers see the average of the whole market while the seller has more knowledge of a product that the buyer does not have. Akerlof argues that information asymmetry gives the seller an incentive and advantage to sell goods of less than the average market quality (Akerlof, 2020). Small and medium-sized businesses (SMEs) have more difficulty obtaining financing than larger companies do due to information asymmetries and the unique characteristics of SMEs (Nshimirimana, Githui & Muhavani, 2021). Critics argue that information asymmetry theory might be overly generalized and not applicable to all situations. SMEs are suggestively constrained by the financial gaps in the economic system such as higher administrative costs, collateral requirements, and a lack of experience among fiscal intermediaries. The information asymmetry theory is relevant to the study as it helped in ascertaining the effect of bank credit on the financial performance of SMEs in Thika town.
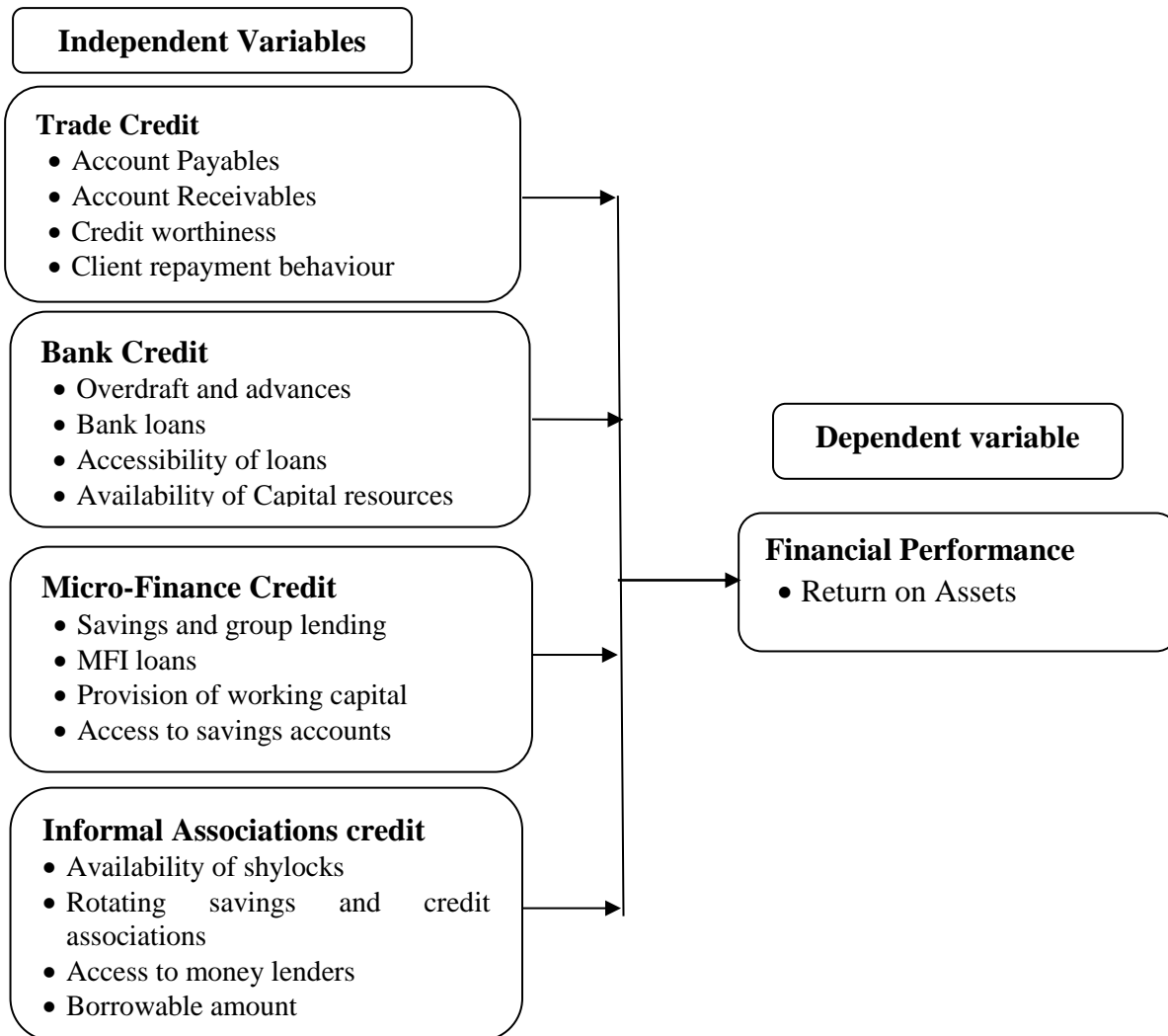
2.1.3 Uniting Theory of microfinance

The uniting theory of micro finance was postulated by Ghatak and Guinnane (1999). The theory states that joint liability could increase repayment rates and the welfare of credit-constrained borrowers through several significant ways. When one borrower is unable to repay a loan, group members are contractually required to repay instead (Fischer & Ghatak, 2011). Critics argue that the Uniting Theory of microfinance oversimplifies the diverse and complex nature of microfinance. The underlying philosophy of microfinance makes it easier for SMEs to repay the loans they have received (Ghatak & Guinnane, 1999). These businesses take it upon themselves to see that the loans they have received, either individually or jointly, are repaid. The pattern of loan repayment by SMEs will directly affect their ability to acquire more loans from MFIs, which will either have a favorable or negative impact on their financial performance (Fischer & Ghatak, 2011). The uniting theory of microfinance is relevant to the study as it helped in establishing the effect of microfinance credit on the financial performance of SMEs in Thika town.

2.1.4 Informal financial intermediation theory

The theory of financial intermediation began to develop throughout the 1970s with the key contributions of Akerlof (1970) and Spence (1973). Financial intermediaries exist because they help minimize information and transaction costs that come from an information asymmetry between borrowers and lenders. Thus, financial intermediaries support the effective operation of markets, and any variables affecting the volume of credit channelled through financial intermediaries can have a big macroeconomic impact (Andrieş, 2009). Demand deposit contracts are part of the financial model, but it has an unfavourable equilibrium where everyone withdraws their money right away, even if they would have preferred to leave it in the bank if they had not been worried about the bank failing (Andrieş, 2009). Some critics contend that the existence of informal financial networks might deter individuals from seeking access to formal credit institutions, even if they eventually become available (Santos & Barrett, 2011). In this regard, the informal financial intermediation theory is relevant to the study as it shed more light on how informal associations credit can affect the financial performance of SMEs about SMEs in Thika town.

2.2 Conceptual Framework

A conceptual framework depicts the relationship between the study variables (Leshem and Trafford, 2007). The conceptual framework was illustrated in Figure 1.

Independent Variables

Trade Credit
- Account Payables
- Account Receivables
- Credit worthiness
- Client repayment behaviour

Bank Credit
- Overdraft and advances
- Bank loans
- Accessibility of loans
- Availability of Capital resources

Micro-Finance Credit
- Savings and group lending
- MFI loans
- Provision of working capital
- Access to savings accounts

Informal Associations credit
- Availability of shylocks
- Rotating savings and credit associations
- Access to money lenders
- Borrowable amount

Dependent variable

Financial Performance
- Return on Assets

Figure 2. 1: Conceptual Framework

From the conceptual framework, financial performance was measured using return on assets (ROA) calculated by dividing net income with total assets. Further, the independent variables (credit financing) were measured using trade credit, bank credit, micro-finance credit and informal associations credit. In this case, trade credit was assessed by looking at account payables, account receivables, credit worthiness and client repayment behaviour while bank credit was assessed by looking at overdraft and advances, bank loans, accessibility of loans and availability of capital resources. In addition, micro-finance credit was assessed by looking at savings and group lending, MFI loans, provision of working capital and access to savings accounts while informal associations

credit was assessed by looking at availability of shylocks, rotating savings and credit associations, access to money lenders and borrowable amount.

2.3 Empirical Literature Review

Kapkiyai and Mugo (2015) investigated the impact of trade credit on the financial performance of small-scale businesses in Eldoret Town, Kenya. The study utilized a descriptive research design and sampled 50 audited small and medium-sized businesses in Eldoret, Kenya. The research examined the correlation between trade credit and three financial performance indicators, namely liquidity, profit margin, and return on assets. The study collected secondary data using a documentary guide and analysed it with the SPSS package version 20. The results revealed that trade credit usage increased SMEs' profitability and had a positive influence on liquidity, profit margin, and return on assets. These findings were in line with the pecking order theory for SMEs and were supported by Multiple Regression Model, Pearson Correlation, inferential, and descriptive statistics.

Achode and Rotich (2016) assessed the effect of accounts payable as source of financing on performance of listed manufacturing firms at the Nairobi Securities Exchange. The aim of the study was to investigate the impact of accounts payable on the financial performance of publicly traded manufacturing firms in the NSE Kenya. The study utilized a cross-sectional research design. The study employed secondary data. For the study's descriptive analysis of the variables, SPSS was employed. According to the study's findings, most manufacturing companies had high accounts payable rates and nevertheless performed well. According to the research, profitability and liquidity, the dependent variables, and account payables have a direct, positive relationship.

Mulwa (2014) examined the effect of bank credit on financial performance of small and medium enterprises in Dagoreti north constituency, Kenya. Capital resources frequency, technology, management skills, productivity, and firm size were the independent factors. The research design used in the study was descriptive. Primary data were gathered through questionnaires. The data were analysed using descriptive statistics, including distribution, percentages, variations, and measures of central tendency. The findings of the study indicated that access to capital resources not only enhances wealth creation but also has a considerable influence on financial performance.

Auma (2018) investigated the factors affecting the effectiveness of bank credit in enhancing the performance of SMEs in Kenya: A case of Kisumu City. The study examined the impact of managerial competence, credit terms, and loan utilization on the effectiveness of bank credit in enhancing the performance of SMEs. The study utilized a descriptive cross-sectional design. Questionnaires were utilized in the study to gather primary data, while document analysis was employed to get secondary data. The study concluded that small loans and credit terms regarding interest rates, cost of credit, a lack of collateral were the problems that made bank loans less effective at improving the performance of SMEs.

Mbugua (2017) conducted a study that aimed to investigate the impact of informal financial sector services on the performance of enterprises owned by women in Nakuru town, Kenya. The research design for the study was an exploratory cross-sectional survey. The study chose a sample of 384 women-owned enterprises out of a target population of 28,160 using the proportionate stratified random sampling approach. Questionnaires were used in the study as the instrument for gathering data. The cost of loans, savings, and training in the informal financial sector, were the study's independent variables. The study's conclusions showed that the independent variables and the dependent variable have a positive and statistically significant association.

Similarly, Muriu and Thiongo (2021) examined the effects of informal Saving Schemes Short Term Loans on Livelihoods in Laikipia County, Kenya. The study used an exploratory design that included a quantitative cross-section survey approach. The target population was 920 participants. Paper questionnaires, structured and unstructured interviews, focus group discussions, and key informant practices were among the instruments utilized in the study to gather data. The study's findings showed that participants were easily able to maintain their SME ventures since short-term loans from informal schemes guaranteed the continuity of their income streams. Thus, the study concluded that informal savings schemes offered short-term loans that influenced families' socioeconomic status and the eradication of poverty.

3.0 RESEARCH METHODOLOGY

This study adopted a cross-sectional study plan and utilized quantitative and qualitative methodologies. Quantitative methodology stresses estimation, and information is dissected in a numerical structure to give an exact depiction. The target population entailed 468 SMEs in Thika town. The sample size was 117 selected using simple random sampling and stratified sampling techniques in this study. The data collection instrument was a structured questionnaire to collect both quantitative and qualitative data. The questionnaire was administered both online and physically. Once all the questionnaires were thoroughly checked for completeness and consistency, the data from the fully completed ones was extracted and coded into SPSS software version 25. This software was utilized since it can accurately compute both inferential and descriptive statistics. For both inferential and descriptive statistics, quantitative data were calculated, and the outcomes presented in figures and through statistical tables. Descriptive statistics involved frequencies, percentage, mean and standard deviations for each of the research item in the study. Additionally, the study findings were presented using statistical tables. On the other hand, the qualitative data was first grouped into appropriate sub-groups as per the responses given by the respondents and re-coded back into the SPSS software for descriptive statistics. Also, a part of this qualitative data was used to interpret the study results. Regression analysis was used for testing hypothesis as it enables to establish an effect of one variable on another variable. Hence, the effect of credit financing on financial performance was regressed against four independent variables (trade credit, bank credit, micro finance credit, and informal associations credit).

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The data was collected using questionnaires which were administered to various participants. The results are illustrated in Table 1.

Table 1: Response Rate Results

	Frequency	Percent
Response	88	75.2%
Non-response	29	24.8%
Total	**117**	**100%**

As per the results in Table 1, the number of questionnaires administered to the participants were 117 out of which 88 were filled and returned. This gave a response rate of 75.2% which was greater than 50%. Hence, the response rate was significant for conducting a statistical analysis. This correlates with Rokkan (2018) who noted that a response rate that is 50% and above is substantial for undertaking a statistical analysis.

4.2 Reliability Analysis

Internal consistency reliability examines the extent to which the items within a questionnaire are interrelated. It is measured using Cronbach's alpha coefficients, which ranges from 0 to 1. From the findings every variable was found to be reliable as their reliability values were more than the set threshold of 0.7. Hence, this implies that statements for every study variable in the questionnaires required minimal or no amendments.

4.3 Diagnostic Tests

4.3.1 Results for Normality Test

The study used Kolmogorov-Smirnov and Shapiro-Wilk test, and the results are presented in Table 2.

Table 2: Normality Test Results

	Kolmogorov-Smirnov[a]		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
Trade credit	.202	.200	.853	.167

Bank credit	.278	.054	.833	.059
Micro-finance credit	.231	.200	.881	.314
Informal associations credit	.202	.200	.853	.167
Financial performance	.138	.203	.964	.065
a. Lilliefors Significance Correction				

As per the results in Table 2, the p-values for all the variables were greater than 0.05. Therefore, the residuals of both the dependent and independent variables followed a normal distribution, which ultimately facilitated the prediction in regression model.

4.3.2 Linearity Test Results

The results of linearity test results are presented in Table 3.

Table 3: Linearity Test Results

	Regression Coefficients	p-values
Trade Credit	.804	.026
Bank Credit	.956	.000
Micro-Finance Credit	.783	.000
Informal Associations Credit	.892	.002

As per the results in Table 3, every variable exhibited linearity as they had a positive and significant beta coefficient since p-values were less than 0.05.

4.3.3 Homoscedasticity Test Results

The study used ANOVA for testing homoscedasticity and the results are presented in Table 4.

Table 4: Homoscedasticity Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.438	4	1.859	63.107	.000[b]
	Residual	2.446	83	.029		

	Total	9.883	87			

As per the results in Table 4, the significance value was less than 0.05, implying that variance was equal across all the variables and hence the data was homoscedastic.

4.3.4 Multicollinearity Test

The study employed collinearity statistics and the results are presented in Table 5.

Table 5: Collinearity Statistics

	Collinearity Statistics	
	Tolerance	VIF
Trade Credit	1.000	1.000
Bank Credit	1.000	1.000
Micro-Finance Credit	1.000	1.000
Informal Associations Credit	1.000	1.000

As per the results in Table 5, all the variables had a VIF values of 1. Since VIF values for all the predictor variables were less than 5, the multicollinearity will not be a problem in the regression model.

4.4 Inferential Statistics

The study conducted regression analysis to establish the effect of trade credit, bank credit, micro-finance credit and informal associations credit on financial performance of SMEs in Thika town. The results are presented in Table 6, 7 and 8.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.867[a]	.753	.741	.172
a. Predictors: (Constant), Informal Associations Credit, Bank Credit, Micro-Finance Credit, Trade Credit				

As per the results in Table 6, the R-square was 0.753 which implies that 75.3% of the variations in financial performance of SMEs in Thika town are explained by trade credit, bank credit, micro-

finance credit and informal associations credit. This is an indication that 24.7% of the changes in financial performance of SMEs could be attributed to other factors.

Table 7: ANOVAª

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.438	4	1.859	63.107	.000ᵇ
	Residual	2.446	83	.029		
	Total	**9.883**	**87**			
a. Dependent Variable: Financial Performance of SMEs						
b. Predictors: (Constant), Informal Associations Credit, Bank Credit, Micro-Finance Credit, Trade Credit						

As per the results in Table 7, the p-value was 0.000 and the F-computed was 63.107. The F-computed (63.107) was greater than F-critical (2.4816) and p-value was less than 0.05. This implies that the regression model was significant.

Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.219	.183		2.639	.010
	Trade credit	.804	.353	.599	2.275	.026
	Bank credit	.956	.076	.803	12.502	.000
	Micro-finance credit	.783	.062	.807	12.655	.000
	Informal associations credit	.892	.277	.775	3.214	.002
a. Dependent Variable: Financial Performance of SMEs						

Based on the regression coefficients results shown in Table 8, the equation was

$Y = 0.219 + 0.804 X_1 + 0.956 X_2 + 0.783 X_3 + 0.892 X_4$

Where:

Y= Financial Performance of SMEs; X_1 = Trade credit; X_2 = Bank credit; X_3 = Micro-finance credit; X_4 = Informal associations credit

As per the results, a unit change in trade credit would lead to 0.804 changes in financial performance of SMEs. This implies that trade credit has a significant effect on financial performance of SMEs in Thika town. The findings agree with Kapkiyai and Mugo (2015) who noted that trade credit usage increased SMEs' profitability and had a positive influence on liquidity, profit margin, and return on assets. However, the findings disagree with Gumbo (2020) who established that trade credit has a detrimental or a negative effect on a firm's profitability.

The study also revealed that a unit change in bank credit would lead to 0.956 changes in financial performance of SMEs. This implies that bank credit has a significant effect on financial performance of SMEs in Thika town. The findings agree with Mulwa (2014) who noted that access to capital resources not only enhances wealth creation but also has a considerable influence on financial performance.

The study established that a unit change in micro-finance credit would lead to 0.783 changes in financial performance of SMEs. This implies that micro-finance credit has a significant effect on financial performance of SMEs in Thika town. The results corelate with Kinyua (2014) who noted that accessibility to microfinance affected and heavily influenced SMEs' performance. Omondi and Jagongo (2018) also found that access to loans and other microfinance services had a significant impact on the financial performance of SMEs in Kisumu County, Kenya.

Finally, the study found that a unit change in informal associations credit would lead to 0.892 changes in financial performance of SMEs. This implies that informal associations credit has a significant effect on financial performance of SMEs in Thika town. The findings are in line with Muriu and Thiongo (2021) who noted that business owners able to maintain their SME ventures since short-term loans from informal schemes guaranteed the continuity of their income streams. Bach, Le, and Bui (2017) also established that informal borrowings helped enhance SMEs' sales and investment performance.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The study concluded that trade credit significantly affects the financial performance of SMEs in Thika town. Trade credit have a positive effect on financial performance since it facilitates the purchase of supplies without immediate payment and is flexible since credit terms can be renegotiated on facility renewal. Moreover, credit worthiness ensure that SMEs receives adequate cash for business continuity while discounts offered in trade credit reduces SMEs cost of borrowing.

The study concluded that bank credit has a significant effect on financial performance of SMEs in Thika town. Bank credit affects financial performance of SMEs by providing access to capital and enabling SMEs to pursue growth opportunities. Bank credit ensures there is available capital resources for SMEs, allows SMEs to procure goods to ensure customers are always served. However, stringent bank loan terms discourage SMEs from approaching banks for financing support and this has a negative effect of financial performance of SMEs.

The study concluded that micro-finance credit significantly affects financial performance of SMEs in Thika town. Micro-finance credit affects financial performance of SMEs by providing SMEs with access to much-needed capital, enabling SMEs to invest in productivity-enhancing assets and supporting SMEs in expanding into new markets. However, the fact that MFI loans are not collateral free and are not disbursed quickly to SMEs may derail the financial performance.

The study concluded that informal associations credit has a significant effect on financial performance of SMEs in Thika town. Informal associations credit affects financial performance of SMEs by acting as risk-sharing mechanisms for SMEs and providing a platform for SMEs to network, collaborate, and share resources and knowledge. Credit associations enable SMEs owners to save and borrow money which improve financial performance and the amount of loans that SMEs can borrow have a positive effect on financial performance.

5.2 Recommendations

The study recommends that the Kenyan government needs to formulate policies meant to promote easier access to credit for SMEs. This can include establishing dedicated credit facilities, streamlining loan application processes, and implementing mechanisms to reduce collateral requirements and interest rates for small businesses.

The study recommends that the Kenyan government should devise strategies of regulating and reducing interest rates to protect small and medium-sized enterprises (SMEs) from unfair shylocks who lend money at unsustainable high interest rates coupled with undisclosed fees. It is also recommended that the Kenyan government should collaborate with prospective investors to ensure the presence and easy accessibility of financial institutions.

The study recommends that management at microfinance institutions (MFIs) should collaborate with county governments and other relevant parties to raise awareness about the existence and application process of microfinance loans. Given that MFIs aim to alleviate poverty, they should also contemplate providing initial capital for startup businesses to ensure that both the borrower and the business's well-being can be supervised effectively.

The study findings helped in advancing financing theory of trade credit, information asymmetry theory, uniting theory of microfinance and informal financial intermediation theory as it established that trade credit, bank credit, micro-finance credit and informal associations credit has a significant effect on financial performance of SMEs in Thika town.

5.3 Suggestions for Further Research

The study only focused on small and medium enterprises in Kiambu County. The study therefore recommends that future research should be extended to cover all SMEs in other counties and examine the effect of credit financing on financial performance.

The study also recommends that future researchers should look at the challenges facing small and medium enterprises in Kenya. The study also recommends that future studies should look at how taxation affects the financial performance of small and medium enterprises in Kenya. There is need to examine other factors like government policy that affect financial performance of SMEs in Kenya.
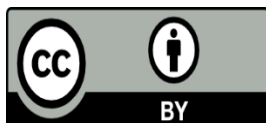
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