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INFLUENCE OF MICROFINANCE LENDING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN GATANGA SUB COUNTY OF MURANG'A COUNTY IN KENYA

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Abstract

Purpose: The purpose of the study was to assess the influence of microfinance lending on the performance of small and medium enterprises in Kenya.

Methodology: The study adopted descriptive research design. The target population was 210 Small and Medium Enterprises operating in Gatanga Sub County of Murang'a County in Kenya. A stratified random sampling technique was used in this study. Data was collected using structured questionnaires. The sample population for this study was 94 Small and Medium Enterprises operating in Gatanga Sub County. Primary data was collected through a questionnaire. Descriptive and inferential analysis was conducted to analyze the data. The data was presented using tables, graphs and charts. The study used multiple regression analysis model to establish the relationship between the variables.

Results: The regression results showed that there is a positive and significant relationship between access to credit facilities and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of 1.088. Results further showed that there is a positive and significant relationship between credit lending policy and performance of SMEs as supported by a p value of 0.001 and a beta coefficient of .072. In addition, results showed that there is a negative and significant relationship between interest rates and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of -0.351. Lastly, results showed that there is a negative and significant relationship between collateral security and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of -0.588.

Unique contribution to theory, practice and policy: The findings of this study will be useful source of reference to researchers and scholars in their research work. Further, the government of Kenya will be able to appreciate which areas of microfinance lending need improvement and, thus formulate appropriate credit policies. In addition, MFIs will be able to train their credit officers on what kind of investment opportunities are viable for Small and Medium Enterprises. Similarly, the study will facilitate the availability of information for SMES businesses on influence of microfinance lending on the performance of their businesses and how best they can get access to microfinance as well as protect them from failure.

Keywords: *microfinance, lending, performance, small and medium enterprises*

1.0 INTRODUCTION

1.1 Background of the study

Small and Medium Enterprises (SMEs) contribute to economic growth through various mechanisms. Primarily, they create jobs to the semi-skilled and unskilled labour force that would otherwise remain jobless. The importance of SMEs is recognized in many globally. The (OECD, 2014) reports that SMEs are key generators of employment and income, and drivers of innovation and growth. This is evidenced by the fact that they employ more than half the labour force in the private sector in OECD countries and account for 99% of private enterprises in the European Union.

The Microfinance institutions are increasingly becoming the major source of finance to most SMEs. Microfinance Institutions (MFIs), as part of their core business, provide credit to SMEs (Abiola, 2011). In addition to these financial services, MFIs also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Ledgerwood, 2014).

According to Nanor (2008) in Africa, 1980s it was first time micro-credit movement spread and this program became stronger in 1990s. Said Foundation started its micro-credit program in 1993, Mogadishu, and SA“ID received its first substantial capital injection from Oxfam America in 1996 (SAID report, 2005). Salam Somali Bank also launched microfinance program to help the poor people in Mogadishu since 2010 (Salam Somali Bank Website, 2011).

MFIs in Kenya were established using either an NGO or a Savings and Credit Cooperative Society Framework. MFIs have been important sources of credit for a large number of low income households and MSEs in the rural and urban areas of Kenya (Wambugu, 2007). MFIs gained prominence in Kenya due to the fact that the formal banking sector since independence up to late 2000 regarded the informal sector as risky and not commercially viable (Ogindo, 2006). The MFIs developed and offered new, innovative and pro-poor modes of financing low-income households and MSEs based on sound operating principles. Since their inception, MFIs have greatly contributed to social economic empowerment to the beneficiaries and their defendants.

In Gatanga, the SMEs employs about 20,000 people representing 74% of the total national employment and also contribute about 88% of the total job creation at any one time; they also contribute in the Gross Domestic Product of the country, whereby they contribute about 24.5% to the GDP (Maina, 2006). There is a concern that systems are not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agriculture sector. Faster economic growth will not be possible without deepening of the financial system and in particular, more financial support from the banking sector to the SME.

Since the inception of these projects it is not clear whether the small and medium enterprises in the sub county are thriving well (Kairu, 2009). Most of the small and medium enterprises are owned by medium and low income earners.

This therefore aroused the interest of the research to look into the influence of microfinance lending on the performance of Small and medium enterprise in Gatanga Sub County.

1.2 Statement of the Problem

Access to adequate credit for working capital and long-term investment purpose has been cited as one of the major constraints that SMEs face in their operations in Kenya and other developing countries. The World Bank report (2010) suggests that one of the major causes of SME failure is limited access to finance. The report further observes that SME loans as a percentage of total bank loans are generally smaller compared to large firms.

In Kenya, capital generated from the small and medium enterprises account up to 40% of the country's Gross Domestic Product (GDP), it has also created employment opportunities to over 11.2 million Kenyans in the informal sector of the economy (GOK, 2010). Currently 35% of the Small and medium enterprises in Kenya receive grants from the government and other financial institutions (GOK, 2012). Approximately ten percent (10%) of all formal SMEs have access to a bank credit line.

A survey on micro and small business by the Danish Government (2010) released to Kenya revealed that players in this sector are dissatisfied with access to finance especially from major financial institutions in Kenya. About 65% of micro, small and medium investors in Kenya did not receive any financial assistance from financial institutions during difficult economic times. Only 12% received financial help with good terms of repayment.

Despite the government regulation that curbed the interest rate charged by commercial banks and other financial institutions most SMEs are not fully performing at their best Microfinance institutions.

A number of studies have been done in Kenya on the microfinance lending on Small and Medium Enterprises. Kemei (2011) studied on the relationship between microfinance services and financial performance of SMEs. The findings were that positive and significant relationships have been established between MFIs loans and SMEs performance.

According to Ouma and Rambo (2013) microfinance lending policies were not responsive to financing needs of clients and to changes in the business environment. This undermined the potential of funded enterprises to achieve sustainable growth. Kimaru (2014) discovered that MFIs face challenges in service delivery such as: banks relying on personal profiles and track records in reviewing application. Bowen and Makarius (2009), show that over 50% SMEs continue to have a deteriorating performance with 3 in every 5 SMEs falling within the months of establishment.

Finance is core function of any business enterprise and no enterprise, no matter how well managed, can survive without enough funds for working capital, fixed assets investment, employment of skilled employees and development of markets and new products (Agnew, 2013). Therefore this study sought to find out the influence access to credit, credit lending policy, interest rates and collateral security have on the performance of small and medium enterprises in Gatanga Sub-County and came up with recommendations on best practices to improve the financial performance of small and medium enterprises

1.3 Purpose of the study

The purpose of the study was to assess the influence of microfinance lending on the performance of small and medium enterprises in Kenya.

The specific objectives were;

1. To find out how access to credit facilities influences the performance of small and medium enterprises in Kenya.
2. To establish the influence credit lending policy has on the performance of small and medium enterprises in Kenya.
3. To establish the extent to which interest rates influence the performance of small and medium enterprises in Kenya.
4. To find out influence of collateral security on performance of small and medium enterprises in Kenya

1.0 LITERATURE REVIEW

2.1 Theoretical Review

2.2.1 Entrepreneurship Theory

The theory consists of opportunity discovery, evaluation of the opportunity and the decision to exploit the opportunity. Other elements of the theory include self-employment, business operation and performance. The theory highlights four operational measures of performance which are survival, growth, profitability/income, and experiencing initial public offering. Survival refers to continuation of entrepreneurial activity while growth refers to increase in the venture's sales and employment. Profitability refers to new surplus of revenue over cost while experiencing initial public offer refers to the sale of stock to the public (Shane, 2005).

Opportunities are created by the institutional or external environment for those entrepreneurs who could identify them to start or improve their businesses and subsequently, their welfare. Entrepreneurs' ability to identify and tap such opportunities differs between entrepreneurs. It also depends on their ability to access information and willingness to act upon the information in terms of risk; that is their attitude (Shane, 2005). Individual attributes affect discovery of entrepreneurial opportunity. It is made up of psychological and demographic factors such as motives, attitude to risk, education and training, career experience, age and social status.

Changes in business environment such as economic, financial, political, legal, and socio-cultural factors also affect discovery of opportunity. For example, income level of the entrepreneur, capital availability, political stability, laws concerning private enterprise and property rights, and desire for enhanced social status by the entrepreneur could affect discovery of entrepreneurial opportunity, business setting also affect opportunity discovery. Industrial sectors such as distribution, manufacturing, agriculture, catering, and business services are more attractive to entrepreneurs (Brana, 2008).

Evaluation of the identified opportunity is another stage in the entrepreneurial process, and appropriate decision at this stage leads to the decision to exploit the opportunity (Carter & Shaw, 2006). The decision to exploit the opportunity depends on the intention of the entrepreneur, and the appropriate measure of entrepreneurial decision-making is intention which leads to recognition of entrepreneurial opportunities. Exploitation of the opportunity depends on the entrepreneur's level of education, skills or knowledge acquired through work experience, social networks, credit, and cost-benefit analysis of the business (Shane, 2005).

The entrepreneurship theory informs this study since it gives an in-depth analysis of the entrepreneurship concept. In particular, the theory outlines the prerequisites for starting a business and what it takes to expand and make it successful. Similarly, this study examines the performance of small entrepreneurs. According to the theory, one of the major requirements for a business is capital. Entrepreneurs need adequate capital to start a venture and to survive in the market. In this study, the focus is on MFIs as a source of capital inform of credit to the SMEs. For SMEs to thrive in the prevailing competitive market, they need to have access to credit facilities. Further, there should be favorable credit lending policies, interest rates and collateral requirements.

2.2.2 Loan Pricing Theory

Banks cannot always set high interest rates, e.g. trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz & Weiss, 2011). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behaviour or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodechai, 2004).

According to Atieno (2011) also pointed out that access to credit by borrowers is affected mainly by credit rationing behavior of lending institutions who used descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs.

The loan pricing theory informs this study since it focuses on interest rate and how financial institutions determine the interest rate to charge. In this study, interest rate is analyzed as one of the key determinants of SMEs performance. The ability of the SMEs to access credit depends to a large extent on the cost of the credit. Most small businesses are not able to access credit due to the high borrowing cost inform of interest rate and other charges.

2.2 Empirical Review

Cooper (2012) conducted a study on the impact of microfinance services on the growth of SMEs in Kenya. The study targeted 50 SMEs in Nairobi. The researcher used self-developed questionnaire as an instrument of data collection and analyzed the data using quantitative analysis. The study established that SMEs largely depend on micro financing for growth. A significant percentage of SMEs was found to have access and do seek micro credit for their businesses. The study also established that microfinance services have assisted enterprises to change their status through growth in sales level from micro to small and from small to medium. Though SMEs have easy access to microfinance services, the study indicated that they have no exemption from strict requirements when applying for loans.

Compared with the position of large enterprises, the provision of finance to SMEs by lending institutions can be problematic for a number of reasons (Berger and Udell, 2006; Frank and Goyal, 2003). First, such institutions need to be able to effectively monitor the performance of the enterprise and ensure that: the enterprise is abiding by the initial terms of the contract; the enterprise is making satisfactory business progress; the necessary means are available to ensure that the interests of the lender are being respected. Such monitoring, however, is difficult due to a lack of transparency in the operation of SMEs, which are less likely to follow expected norms of corporate governance.

This is compounded by the fact that SMEs experience greater volatility in profitability, growth and earnings in comparison to larger firms, and their survival rate is much lower (Storey & Thompson, 1995).

Accessing low interest credit is considered to be an important factor in increasing the performance of SMEs. It is thought that access to credit enables Small and Medium Enterprises to enhance their financial performance (Anthony, 2013). The main objective of microcredit is to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions. It is argued that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare.

Although there is lack of data, and thus empirical work, on international securitized lending (Cao & Gete, 2012), evidence from research support the widespread use by foreigners of United States (US) Treasuries as collateral. The study also shows that cross-border collateralized lending exists, probably in large amounts. Gorton and Metrick (2011) as quoted in Cao & Gete (2012) shows that many foreign financial institutions borrow or lend against U.S. Treasuries in U.S. repo markets. Around 85% of the participants in the global Overseas Trading Companies (OTC) derivatives industry, including Chinese banks (Lee 2009), declare to accept U.S. Treasuries as collateral (International Swaps and Derivatives Associations, 2000, as cited in Cao and Gete (2012). Further still, several foreign Central Banks and financial authorities from different regions of the world, accept U.S. Treasuries as collateral for borrowing transactions. Examples include, among others, the Bank of England, the Bank of Canada, the Korea Securities Depository or the Hong Kong Futures Exchange (BIS, 2006) cited in Cao and Gete (2012) and that Informal groups of private creditors on the international stage, as the London or Paris Clubs, ask for the debt to be collateralized by U.S. Treasuries (Central Bank of Nigeria 2007). It happens similarly with the Brady bonds (Barney, 2000).

2.3 Conceptual Framework

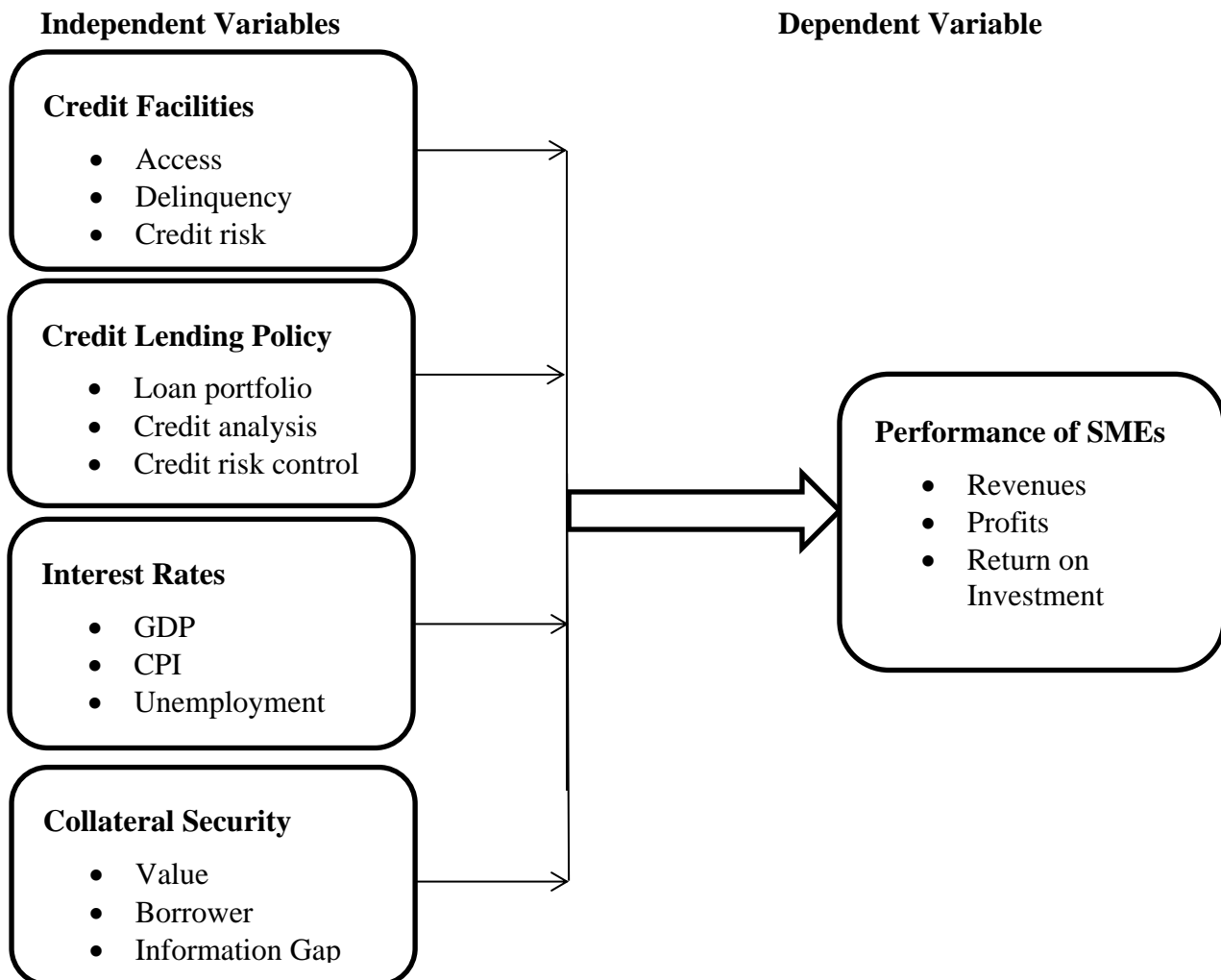


Figure 2.1: Conceptual Framework

2.0 RESEARCH METHODOLOGY

The study adopted descriptive research design. The target population was 210 Small and Medium Enterprises operating in Gatanga Sub County of Murang’a County in Kenya. A stratified random sampling technique was used in this study. Data was collected using structured questionnaires. The sample population for this study was 94 Small and Medium Enterprises operating in Gatanga Sub County. Primary data was collected through a questionnaire. Descriptive and inferential analysis was conducted to analyze the data. The data was presented using tables, graphs and charts. The study used multiple regression analysis models to establish the relationship between the variables.

3.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered was 94. A total of 84 questionnaires were properly filled and returned. This represented an overall successful response rate of 89% as shown on Table 1. This agrees with Babbie (2004) who asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Based on these assertion 89% response rate is adequate for the study.

Table 1: Response Rate

Response	Frequency	Percent
Returned	84	89%
Unreturned	10	11%
Total	94	100%

4.2 Demographic Information

4.2.1 Gender of the Respondents

The respondents were asked to indicate their gender. Results in figure 2 reveal that Majority of 59% of the respondents were male while 41% were female. This implies that there is male dominance in the SME sector. However, the number of female entrepreneurs is equally large. This implies that women are also actively involved in running businesses in Gatanga Sub County.

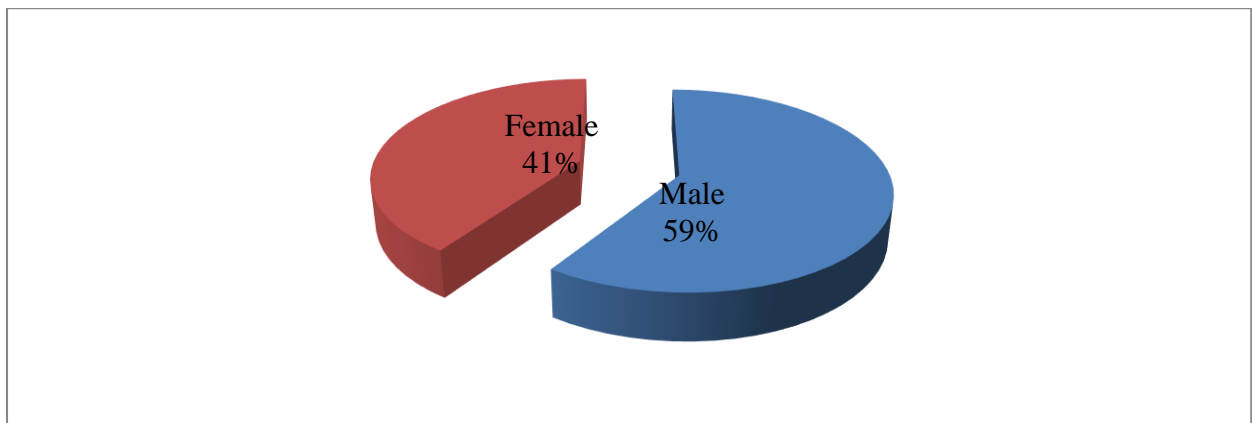
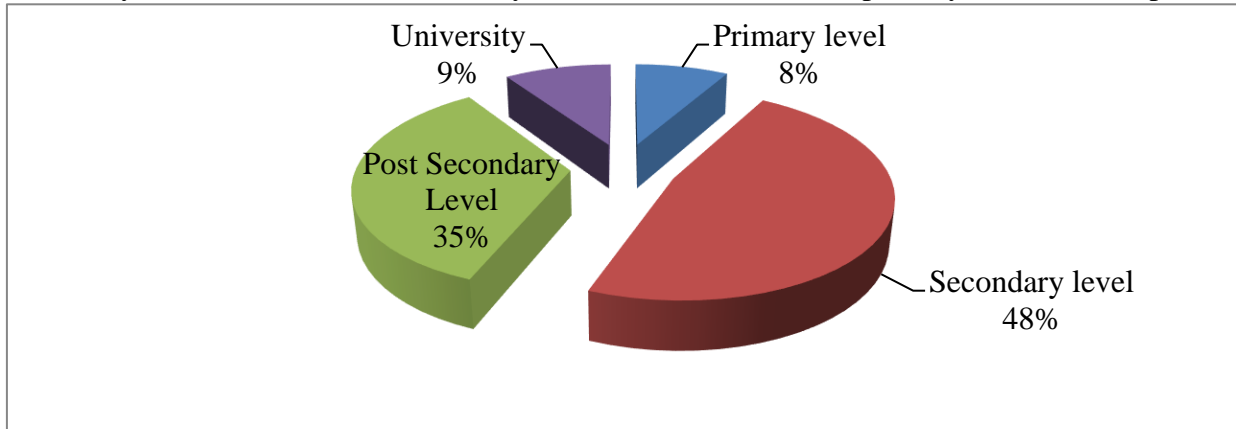


Figure 2: Gender of the Respondents

4.2.2 Level of Education

The respondents were asked to indicate their level of education. Results in figure 3 reveal that 48% of the respondents had attained secondary level education, 35% indicated post-secondary level, 9% indicated university level while 8% indicated primary level. This implies



that majority of the small business people within Gatanga Sub-County have attained minimum secondary education.

Figure 3: Level of Education

4.2.3 Type of SME

The respondents were asked to indicate the type of their business. Results in figure 4 reveal that 32% of the respondents indicated dairy farming and farm production respectively, 28% indicated retail shop while 8% of the respondents indicated poultry business. This implies that the respondents are involved in various types of small and medium business ventures.

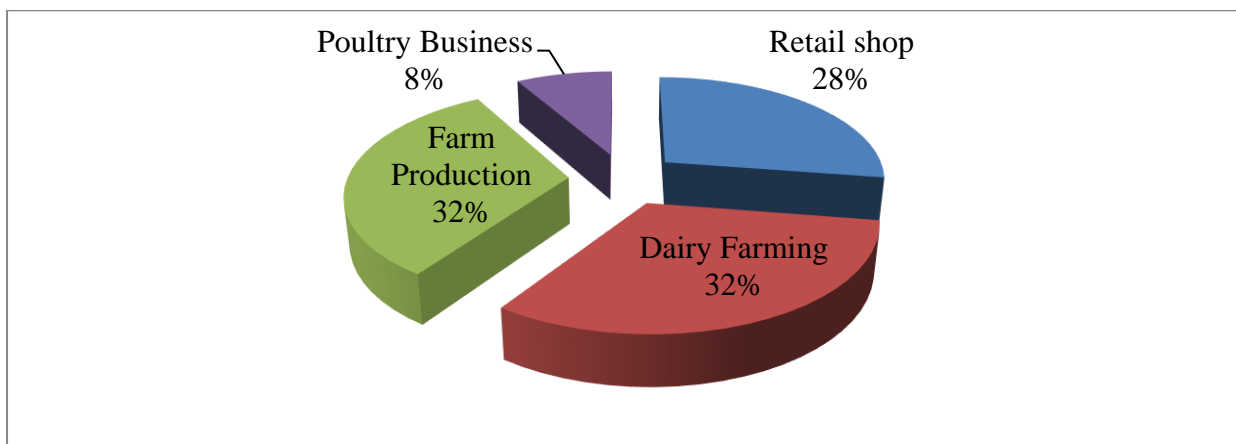


Figure 4: Type of SME

4.2.4 Enterprise Period of Operation

The respondents were asked to indicate the period of time their business had been in operation. Results in figure 5 reveal that 31% of the respondents indicated more than 5 years, 29% indicated 3-5years, 21% indicated 1-3years while 19% of the respondents indicated less than 1 year. This implies that over 50% of the businesses have been in operation for more than 3 years. The period of time an enterprise has been in operation has likely to influence its ability to access credit.

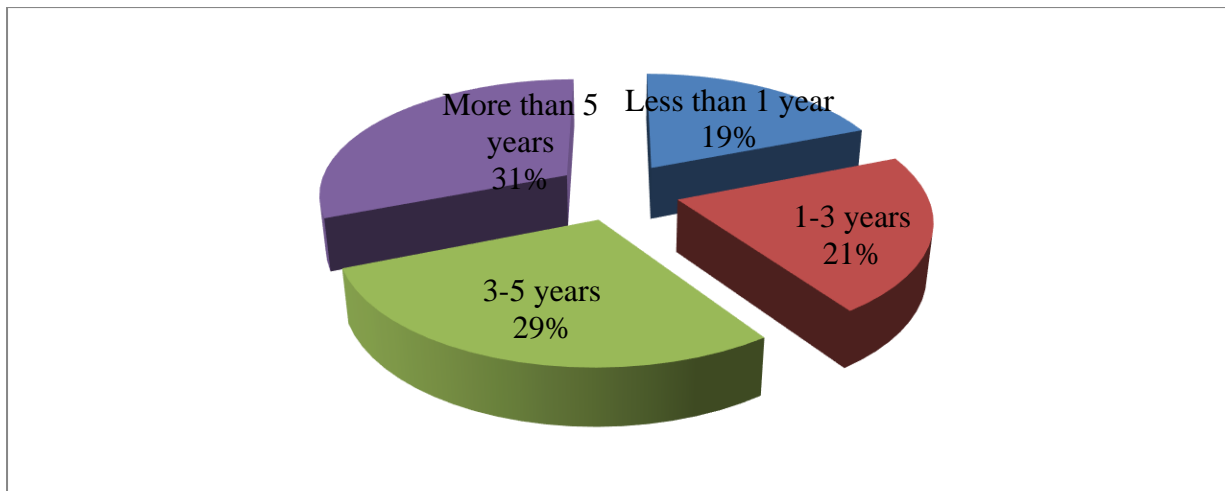


Figure 5: Enterprise period of Operation

4.2.5 Startup Capital

The respondents were asked to indicate the source of their startup capital. Results in figure 6 reveal that majority of 79% of the respondents indicated own savings while 21% indicated borrowed capital. This implies that majority of the business people used their savings to start their businesses.

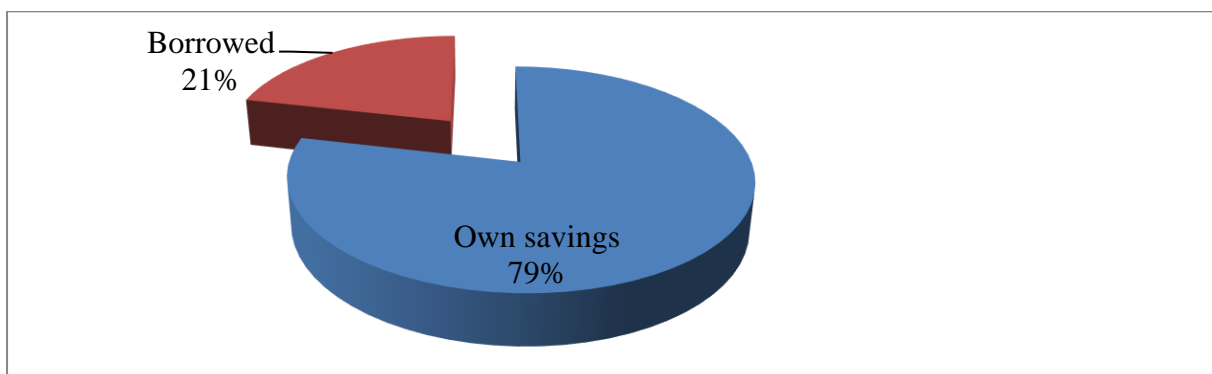


Figure 6: Startup capital

4.2.6 Annual sales

The respondents were asked to indicate their annual sales category for the following periods. Results in table 2 reveal that 33.3% of the respondents indicated 100,001-200,000; 27.4% indicated 200,001-300,000; 21.4% indicated 300,001-500,000 while 17.9% of the respondents indicated 500,001-1,000,000. This implies that the annual sales for majority of the businesses range between 100,000 and 300,000. This implies that the businesses have not been doing very well.

Table 2: Annual Sales

Annual Sales	Frequency	Percent (%)
100,001-200,000	28	33.3
200,001-300,000	23	27.4
300,001-500,000	18	21.4
500,001-1,000,000	15	17.9
Total	84	100

4.3 Descriptive Statistics

4.3.1 Access to credit facilities

The respondents were asked to indicate their level of satisfaction with statements regarding access to credit facilities. The responses were rated on a five likert scale as presented in Table 3. Majority of 88.1% (39.3%+48.8%) of the respondents rated satisfactory the statement that Access to Credit facilities has influenced the volume of sales; 91.6% rated satisfactory the statement that the profitability of the business has increased after accessing Credit facilities; 92.9% rated satisfactory the statement that Credit facilities has helped to increase the stock of my business; 94% rated satisfactory the statement that Credit facilities have helped me to increase the range of products/ services; 90.5% rated satisfactory the statement that the number of my customers have increased after accessing Credit facilities while 92.9% rated satisfactory the statement that Credit facilities have helped me to employ more workers. The overall mean of the responses was 1.67 which indicate that majority of the respondents rated satisfactory most of the statements. Additionally, the standard deviation of 0.76 indicates that the responses were varied. The results herein imply that access to credit facilities influence the performance of small and medium enterprise.

This study findings mirror those of Cooper (2012) who conducted a study on the impact of microfinance services on the growth of SMEs in Kenya. The study targeted 50 SMEs in Nairobi. The study established that SMEs largely depend on micro financing for growth. A significant percentage of SMEs was found to have access and do seek micro credit for their businesses. This implies that the ability of SMEs to access credit facilities enhances their growth and performance.

Table 3: Access to credit facilities

Statements	Very satisfactory	Satisfactory	Moderately satisfactory	Unsatisfactory	Very Unsatisfactory	Mean	Std. Dev
Access to Credit facilities has influenced the volume of sales	39.30%	48.80%	8.30%	3.60%	0.00%	1.76	0.75
The profitability of the business has increased after accessing Credit facilities	47.60%	44.00%	6.00%	1.20%	1.20%	1.64	0.76
Credit facilities has helped to increase the stock of my business	42.90%	50.00%	6.00%	1.20%	0.00%	1.65	0.65
Credit facilities have helped me to increase the range of products/ services	47.60%	46.40%	2.40%	2.40%	1.20%	1.63	0.76
The number of my customers have increased after accessing Credit facilities	42.90%	47.60%	3.60%	2.40%	3.60%	1.76	0.91
Credit facilities have helped me to employ more workers	51.20%	41.70%	3.60%	3.60%	0.00%	1.60	0.73
Average						1.67	0.76

4.3.2 Credit Lending Policies

The respondents were asked to indicate their level of satisfaction to the on how microfinance lending has influenced their enterprise performance. The responses were rated on a five likert scale as presented in Table 4. Majority of 70.2% (38.1%+32.1%) of the respondents rated satisfactory Minimum qualification, 80.9% rated satisfactory Repayment period, 84.5% rated satisfactory Timeline in processing the loan, 85.8% rated satisfactory Repayment terms. However, 57.2% of the respondents rated unsatisfactory Interest Charged while 60.8% rated unsatisfactory Grant of amount applied for. The overall mean of the responses was 2.58 which indicate that majority of the respondents rated satisfactory most of the statements. Additionally, the standard deviation of 1.02 indicates that the responses were varied. The results herein imply that credit lending policies influence the performance of small and medium enterprise.

This study findings support those of Koech (2011) who conducted a study to find out the financial constraints that hinder growth of SMEs in Kenya. The researcher adapted the case

study approach and targeted SMEs in Kamukunji constituency. He established that capital access, cost, capital market collateral requirements information access, capital management and cost of registration influence SMEs ability to access credit. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs easy access to loans.

Table 4: Credit lending policy

Statements	Very satisfact ory	Satisfact ory	Moderately satisfactory	Unsatisfac tory	Very Unsatisf actory	Mean	Std. Dev
Minimum qualification	38.10%	32.10%	10.70%	15.50%	3.60%	2.14	1.19
Repayment period	34.50%	46.40%	7.10%	9.50%	2.40%	1.99	1.01
Timeline in processing the loan	36.90%	47.60%	6.00%	8.30%	1.20%	1.89	0.93
Repayment terms	31.00%	54.80%	4.80%	7.10%	2.40%	1.95	0.93
Interest Charged	0.00%	15.50%	27.40%	28.60%	28.60%	3.70	1.05
Grant of amount applied for	0.00%	10.70%	28.60%	29.80%	31.00%	3.81	1.00
Average						2.58	1.02

4.3.3 Interest Rates

The respondents were asked to indicate the extent to which the following aspects of interest rates on loan influence their enterprise. The responses were rated on a five likert scale as presented in Table 5. Majority of 89.3% (41.7%+47.6%) of the respondents rated interest to a large extent, 83.4% rated Loan processing charges to a large extent, 86.9% rated Prepayment charges to a large extent, 72.6% rated late payment charges to a large extent. Further, 38.1% of the respondents rated Service Tax to a small extent, 36.9% rated fixed rate to a small extent while 36.9% rated Flexible rate moderately. The overall mean of the responses was 3.44 which indicate that majority of the respondents rated moderately most of the statements. Additionally, the standard deviation of 0.89 indicates that the responses were varied. The results herein imply that interest rates influence the performance of small and medium enterprise.

This study finding agree with those of Anthony (2013) who noted that accessing low interest credit is considered to be an important factor in increasing the performance of SMEs. It is thought that access to credit enables Small and Medium Enterprises to enhance their financial performance. Further, this study findings are in line with those of Cooper (2008) who argued that access to low interest credit further increases SME's risk-bearing abilities; improve risk-coping strategies and enables consumption smoothing over time.

Table 5: Interest Rates

Statements	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std. Dev
Interest	0.00%	0.00%	10.70%	41.70%	47.60%	4.37	0.67
Loan processing charges	1.20%	6.00%	9.50%	40.50%	42.90%	4.18	0.92
Prepayment charges	0.00%	2.40%	10.70%	46.40%	40.50%	4.25	0.74
Late payment charges	3.60%	9.50%	14.30%	39.30%	33.30%	3.89	1.09
Service Tax	3.60%	38.10%	34.50%	23.80%	0.00%	2.79	0.85
Fixed rate	29.80%	36.90%	26.20%	7.10%	0.00%	2.11	0.92
Flexible rate	21.40%	25.00%	36.90%	16.70%	0.00%	2.49	1.01
Average						3.44	0.89

4.3.4 Collateral Security

The respondents were asked to indicate their level of satisfaction on the influence of collateral security on the performance of small and medium enterprises. The responses were rated on a five likert scale as presented in Table 6. Majority of 78.6% (39.3%+39.3%) of the respondents rated to great extent the statement that the microfinance institutions asks for collaterals that are way beyond reach; 90.4% rated to great extent the statement that Lack of reputation and contact in the banking market makes it harder for SMEs to borrow; 88.1% rated to great extent the statement that Business skills influences ability to access funds; 83.4% rated to great extent the Availability of collateral; 77.4% rated to great extent Delayed payments by debtors; 72.7% rated to great extent Irregular cash flows while 60.7% rated to great extent Credit History. The overall mean of the responses was 1.95 which indicate that majority of the respondents rated to great extent most of the statements. Additionally, the standard deviation of 1.00 indicates that the responses were varied. The results herein imply that collateral security influence the performance of small and medium enterprise.

The study findings concur with that of Cadot (2011) who observed that while collaterals may reduce the risk of over-investment by entrepreneurs and so reduce the risk of repayment default, contracting collaterals may lead the bank to reduce the monitoring effort. This implies that the financial institutions will be willing to lend money to the businesses. In this case, MFIs will be willing to lend money to the SMEs if they are able to provide the required collateral. However, this may disadvantage many small businesses who may not be able to provide the required collateral.

Table 6: Collateral Security

Response	Very Great extent	Great Extent	Moderately Extent	Little extent	No influence	Mean	Std. Dev
The microfinance institutions asks for collaterals that are way beyond reach	39.30%	39.30%	14.30%	7.10%	0.00%	1.89	0.91
Lack of reputation and contact in the banking market makes it harder for SMEs to borrow	46.40%	44.00%	9.50%	0.00%	0.00%	1.63	0.66
Business skills influences ability to access funds	42.90%	45.20%	7.10%	2.40%	2.40%	1.76	0.87
Availability of collateral	41.70%	41.70%	7.10%	8.30%	1.20%	1.86	0.96
Delayed payments by debtors	38.10%	39.30%	6.00%	11.90%	4.80%	2.06	1.17
Irregular cash flows	42.90%	29.80%	10.70%	13.10%	3.60%	2.05	1.18
Credit History	32.10%	28.60%	11.90%	22.60%	4.80%	2.39	1.28
Average						1.95	1.00

4.3.5 Performance of the SME

The respondents were asked to indicate the extent to which microfinance lending positively influence the business overall performance. The responses were rated on five likert scale as presented in Table 7. Majority of 78.6% (41.7%+36.9%) of the respondents rated to greater extent Increased Revenues; 79.7% rated to greater extent Increased profits; 85.7% rated to greater extent Eased financial transactions; 82.1% rated to greater extent Increased returns through increased Efficiency; 88.1% rated to greater extent Improved Efficiency of the business while 78.5% rated to greater extent Increased ability to attract more customers.

The overall mean of the responses was 4.09 which indicate that majority of the respondents rated to greater extent most of the statements. Additionally, the standard deviation of 1.06 indicates that the responses were varied. The results herein imply that microfinance lending influence the performance of small and medium enterprise.

The findings of this study mirror those of Cooper (2012) who conducted a study on the impact of microfinance services on the growth of SMEs in Kenya. The study targeted 50 SMEs in Nairobi. The researcher used self-developed questionnaire as an instrument of data collection and analyzed the data using quantitative analysis. The study established that SMEs largely depend on micro financing for growth.

However, this study finding are in contrast with those of Shah (2010) who found no impact of micro financing on the financial performance of SMEs among the slum dwellers in the city of Hyderabad, India.

Table 7: Performance of the SME

Statements	No influence at all	Little extent	Moderate extent	Greater extent	Very great extent	Mean	Std. Dev
Increased Revenues	3.60%	7.10%	10.70%	41.70%	36.90%	4.01	1.05
Increased profits	4.80%	6.00%	9.50%	32.10%	47.60%	4.12	1.11
Eased financial transactions	2.40%	6.00%	6.00%	41.70%	44.00%	4.19	0.96
Increased returns through increased Efficiency	3.60%	8.30%	6.00%	45.20%	36.90%	4.04	1.05
Improved Efficiency of the business	2.40%	7.10%	2.40%	45.20%	42.90%	4.19	0.96
Increased ability to attract more customers	4.80%	13.10%	3.60%	34.50%	44.00%	4.00	1.20
Average						4.09	1.06

4.4 Inferential Analysis

4.4.1 Correlation Analysis

Table 8 below presents the results of the correlation analysis. The results revealed that access to credit facilities and SMEs performance are positively and significantly associated ($r=0.794$, $p=0.000$). The table further indicated that credit lending policies and SMEs performance are positively and significantly associated ($r=.724$, $p=0.000$). It was further established that interest rates and SMEs performance are negatively and significantly associated ($r=-0.785$, $p=0.000$). Finally, results showed that collateral security and SMEs performance are negatively and significantly associated ($r=0-.755$, $p=0.000$). This implies that access to credit facilities and credit lending policies change in the same direction as performance of SMEs. The results further imply that interest rates and collateral security change in opposite direction compared to performance of SMEs.

Table 8: Correlation Matrix

		SMEs Perform ance	Access to credit facilities	Credit lending policies	Interest Rates	Collateral Security
SMEs Performance	Pearson Correlation	1.000				
	Sig. (2-tailed)					
Access to credit facilities	Pearson Correlation	.794**	1.000			
	Sig. (2-tailed)	0.000				
Credit lending policies	Pearson Correlation	.724**	.633**	1.000		
	Sig. (2-tailed)	0.000	0.000			
Interest Rates	Pearson Correlation	-.785**	-.748**	-.671**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.000		
Collateral Security	Pearson Correlation	-.755**	-.613**	-.648**	.709**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

4.3.2 Regression Analysis

The results presented in Table 9 present the fitness of the regression model in explaining the study phenomena. Access to credit facilities, credit lending policies, interest rates and collateral security were found to be satisfactory variables in explaining the performance of SMEs. This is supported by coefficient of determination also known as the R square of 75.4%. This means that access to credit facilities, credit lending policies, interest rates and collateral security explain 75.4% of the variations in the dependent variable which is performance of SMEs. These results further imply that the model applied to link the relationship between the variables was satisfactory. Further, the adjusted R squared of 0.742 indicates that the variables under study are suitable, since there is negligible difference between the R squared and the adjusted R squared.

Table 9: Model Fitness

Indicator	Coefficient
R	0.868
R Squared	0.754
Adjusted R squared	0.742

Table 10 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of SMEs performance. This was supported by an F statistic of 60.600 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 10: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.803	4	3.201	60.600	0.000
Residual	4.173	79	0.053		
Total	16.976	83			

Regression of coefficients results in Table 11 shows that access to credit facilities and performance of SMEs are positively and significantly related ($\beta=1.088$, $p=0.000$). The table further indicates that credit lending policies and performance of SMEs are positively and significantly related ($\beta=0.072$, $p=0.001$). It was further established that interest rates and performance of SMEs are negatively and significantly related ($\beta=-0.351$, $p=0.000$). Finally, collateral security and performance of SMEs were found to be negatively and significantly related ($\beta =-0.588$, $p=0.000$).

Table 11: Regression of Coefficients

Variable	β	Std. Error	T-statistic	Sig.
(Constant)	2.030	1.232	1.648	.103
Access to credit Facilities	1.088	.271	4.023	.000
Credit Lending Policies	.072	.013	5.73	.001
Interest Rates	-.351	.026	-13.85	.000
Collateral Security	-.588	.161	-3.661	.000

Thus, the optimal model for the study is;

$$\text{SMEs Performance} = 2.030 + 1.088 \text{ Access to Credit Facilities} + 0.072 + \text{Credit Lending Policies} - 0.351 \text{ Interest Rates} - 0.588 \text{ Collateral Security}$$

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The first objective of the study was to find out how access to credit facilities influences the performance of small and medium enterprises in Kenya. Majority of the respondents noted that access to credit facilities has influenced the volume of sales. The profitability of the business has increased after accessing Credit facilities. Further, the respondents felt that credit facilities have helped to increase the stock of my business, credit facilities have helped business people to increase the range of products/ services, the number of customers have increased after accessing credit facilities and credit facilities have helped small enterprises to employ more workers. The correlation results indicated that access to credit facilities and performance of SMEs are positively and significantly associated. The regression results showed that there is a positive and significant relationship between access to credit facilities and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of 1.088. This implies that a unit increase in access to credit facilities led to an improvement in SMEs performance by 1.088 units.

The second objective of the study was to establish the influence credit lending policy has on the performance of small and medium enterprises in Kenya. Majority of the respondents rated satisfactory minimum qualification, repayment period, timeline in processing the loan and repayment terms. However, the respondents rated unsatisfactory interest charged and grant of amount applied for. The correlation results indicated that credit lending policy and performance of SMEs are positively and significantly associated. The regression results showed that there is a positive and significant relationship between credit lending policy and performance of SMEs as supported by a p value of 0.001 and a beta coefficient of .072. This implies that a unit improvement in credit lending policy led to a corresponding improvement in SMEs performance by 0.072 units.

The third objective of the study was to establish the extent to which interest rates influence the performance of small and medium enterprises in Kenya. Majority of the respondents rated large extent interest, loan processing charges, payment charges, late payment charges. Further, the respondents rated small extent service tax and fixed rate while flexible rates were rated moderately. The correlation results indicated that interest rates and performance of SMEs are negatively and significantly associated. The regression results showed that there is a negative and significant relationship between interest rates and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of -0.351. This implies that a unit increase in interest rates led to decrease in SMEs performance by 0.351 units.

The fourth objective of the study was to find out influence of collateral security on performance of small and medium enterprises in Kenya. The respondents rated to great extent the statement that the microfinance institution asks for collaterals that are way beyond reach; Lack of reputation and contact in the banking market makes it harder for SMEs to borrow; Business skills influences ability to access funds; the availability of collateral; delayed payments by debtors and Irregular cash flows. The correlation results indicated that collateral security and performance of SMEs are negatively and significantly associated. The regression results showed that there is a negative and significant relationship between collateral security and performance of SMEs as supported by a p value of 0.000 and a beta coefficient of -0.588. This implies that a unit increase in collateral security led to decrease in SMEs performance by 0.588 units.

5.2 Conclusions

From the correlation results, the study concluded that there is a positive and significant association between access to credit facilities and performance of small and medium enterprises. This means that access to credit facilities and performance of small and medium enterprises change in the same direction. Further, from the regression results the study concluded that access to credit facilities has a positive and significant influence on the performance small and medium enterprises in Gatanga sub-County.

Further, the study concluded that there is a positive and significant association between credit lending policy and performance of small and medium enterprises. This means that credit lending policy and performance of small and medium enterprises change in the same direction. Further, from the regression results the study concluded that credit lending policy has a positive and significant influence on the performance small and medium enterprises in Gatanga sub-County.

In addition, the study concluded that there is a negative and significant association between interest rates and performance of small and medium enterprises. This means that interest rates and performance of small and medium enterprises change in opposite directions. Further, from the regression results the study concluded that interest rate has a negative and significant influence on the performance small and medium enterprises in Gatanga sub-County.

Lastly, the study concluded that there is a negative and significant association between collateral security and performance of small and medium enterprises. This means that collateral security and performance of small and medium enterprises change in opposite directions. Further, from the regression results the study concluded that collateral security has a negative and significant influence on the performance small and medium enterprises in Gatanga sub-County.

5.3 Recommendations

Based on the findings, the study recommended;

The need for microfinance institutions to increase their accessibility to the small and medium enterprises in Gatanga Sub-County, this will enable SMEs to access the microfinance loans with ease. The MFIs should develop variety of loan products and services for their customers. This way, the SMEs will have an opportunity to choose their preferred loan product. Further, the study recommended the need for the government to establish structured institutional mechanisms to facilitate the flow of financial resources from the formal sector through microfinance institutions to the small and medium enterprises.

MFIs should revise their credit lending policy. In particular, the institutions should improve on minimum credit qualification, repayment period, time line in processing the loan and repayment terms. If these clauses are improved, then the SMEs will be able access adequate credit. Additionally, the SMEs will be able to repay the loan within the stipulated period. The microfinance institutions should also adopt the progressive loan advancement strategy. This will guarantee more financial credit to SMEs who repay their current loans on time without defaulting.

MFIs should consider revising the loans processing charges and repayment charges. The government should also ensure that other financial institutions charge favorable interest rates to the small and medium enterprises. This will enable the SMEs to repay the loans without defaulting.

MFIs should consider reducing collateral requirements to facilitate SMEs easy access to loans. Most of the SMEs fail to qualify for credit due to lack of adequate collateral security. If MFIs can adjust their collateral security requirements, then, SMEs will be able to borrow and expand their businesses.

5.4 Recommendations for Further Research

The study sought to assess the influence of microfinance lending on the performance of small and medium enterprises in Gatanga Sub-County, Murang'a County and therefore an area for further studies could consider the influence of microfinance lending on the performance of small and medium enterprises in other Counties for the purpose of comparison. Future researchers could also consider introducing other factors affecting performance of small and medium enterprises. In addition, future studies should consider introducing intervening variables such as government regulations and analyze their influence on the relationship between MFIs lending and SMEs performance.

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