

**EFFECT OF CREDIT ACCESSIBILITY THROUGH SAVINGS AND CREDIT  
COOPERATIVES ON THE FINANCIAL PERFORMANCE OF MICRO AND  
SMALL ENTERPRISES IN KIAMBU COUNTY: A CASE STUDY OF MICRO AND  
SMALL ENTERPRISES IN TAI SAVINGS AND CREDIT COOPERATIVE  
SOCIETY LIMITED**

**BY**

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INVESTMENT) DEGREE IN THE SCHOOL OF BUSINESS AND PUBLIC  
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## **DECLARATION**

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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**ABSTRACT**

Micro and Small Enterprises (MSEs) play a major role in economic development, particularly in Emerging Economies, such as Kenya. However, despite this pivotal role, most MSEs hardly survive due to lack of limited access to credit. This study was motivated by the difficulty faced by MSEs in accessing credit from financial institution to sustain business growth and financial performance. The purpose of the study was to establish the extent to which credit accessibility affected the financial performance of MSEs in Kiambu County using Tai SACCO Society Limited as the case study.. The study was guided by the following objectives; to establish the effect of amount of credit to the financial performance of MSEs, to establish the effect of frequency of credit on the financial performance of MSEs and to establish the effect of credit terms on the financial performance of MSEs. The study was based on a descriptive survey design. Primary data was collected using face to face questionnaires to respondents who were owners/managers of the business while secondary data was from Tai SACCO loan records for year 2013 and other regulatory institutions. A sample size of 170 respondents was selected from a population of 850 MSEs using clustered random sampling method on the basis of the seven branches of Tai Sacco. Data was analyzed using SPSS version 20, Microsoft Excel and R studio. Regression analysis was carried out to establish the association among the variables. The results indicated a significant positive association of amount of credit and financial performance of MSEs while there existed a negative association between credit terms and frequency of credit on the financial performance of MSEs. Amount of credit contributed 3.25 % of the variance in financial performance in MSEs. Regression analysis revealed that frequency of credit contributed - 3.26% of the variance in financial performance of MSEs while credit terms contributed - 0.25% of the variance in financial performance of MSEs. In order to improve access to credit by MSEs, lending financial institutions need to adjust credit terms in line with what borrowers can afford.

**Keywords:** Credit Accessibility, SACCOs, SMEs, Savings, Financial Performance

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## **DEDICATION**

I dedicate this research work to the Almighty God to whom all wisdom and knowledge belongs, my loving parents, siblings and the rest of my relatives and all my friends who shared in my dream of attaining a Masters degree.

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## LIST OF ABBREVIATIONS

<b>BOSA:</b>	Back Office Service Activities
<b>CIC:</b>	Cooperative Insurance Company
<b>CGAP:</b>	Consultative Group to Assist the Poor
<b>DFCK:</b>	Development Finance Company of Kenya
<b>FOSA:</b>	Front Office Service Activity
<b>FI:</b>	Financial Intermediaries
<b>GDP:</b>	Gross Domestic Product
<b>GBO:</b>	Global Business Ownership
<b>IDB:</b>	Industrial Development Bank
<b>IEA:</b>	Institute of Economic Affairs
<b>KIE:</b>	Kenya Industrial Estates
<b>KUSCCO:</b>	Kenya Union of Saving and Credit Co-operatives
<b>MSE:</b>	Micro and Small Enterprises
<b>MSEP:</b>	Micro and Small Enterprises Performance
<b>MFI:</b>	Micro Finance Institution
<b>MFSP:</b>	Mobile Financial Service Provider
<b>PLWDs:</b>	Persons Living with Disabilities
<b>SED:</b>	Society for Economic Development
<b>SACCOs:</b>	Savings and Credit Cooperatives
<b>SASRA:</b>	SACCO Society Regulatory Board
<b>SPSS:</b>	Statistical Package for the Social Sciences
<b>UN:</b>	United Nations
<b>UNCDF:</b>	United Nations Capital Development Fund
<b>USA:</b>	United State of America
<b>USD:</b>	United States Dollars
<b>WOCCU:</b>	World Council of Credit Unions

## DEFINITION OF TERMS

**Access to credit:** This is the ability of MSEs to be able to get money from Saccos that act as their capital or finance in meeting their operational costs and for purposes of growing their business (Gyimah, Takyi & Addai, 2006)

**MSEs:** Micro and Small Enterprises. Whereas there are no clear-cut categorization of Small and Medium Enterprises versus the large enterprises, in terms of capital or net worth, MSEs define enterprises whose net worth do not exceed USD 1,000,000 (Caskey et al., 2006).

**Micro Enterprises:** Micro enterprises have been defined as those employing less than 10 workers with annual turnovers of less than KES 500,000 and capital formation of less than KES 5 million for services or less than KES 10 million for enterprises doing manufacturing (MSE Act, 2012)

**Non-current assets:** Fixed assets that are owned by the firm that include property, equipment, infrastructure, etc. (Gardeklint, 2009)

**Performance:** This is the productivity of an MSE that is measured by their amounts of profits, turnover, stock and non-current assets (Ndung'u, 2010).

**Profitability:** MSE is said to be profitable if after all the expenses incurred in production are covered from the revenue the firm has generated, there are positive returns (Dupas & Robinson 2009)

**Small Enterprises:** Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES 500,000 and KES 5 million and capital formation between KES 5 million and KES 20 million (MSE Act, 2012)

**Stock:** The value of goods or services that the firm has available for sale (Caskey et al., 2006)

**Turnover:** The number of sales that the MSE transact over a specific period; usually one year (Gardeklint, 2009)

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

Micro and Small Enterprises (MSEs) play a major role in economic development, particularly in Emerging Economies. According to World Bank Survey (2010) formal MSEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies such as Kenya; these numbers are significantly higher when taking into account the estimated contributions of MSEs operating in the informal sector. The informal sector presents one of the greatest challenges in the MSEs' space, with issues that go well beyond finance.

Various studies that have been conducted have shown that MSEs' sector has been an engine in creation of employment, savings mobilization and production of goods and services that meet the basic need of the poor (Beck et al, 2005). Across the world, MSEs have been recognized as vehicles of social, political and economic development. Their contribution in the economy cannot be wished away. The importance of this sector is particularly envisaged in its ability to provide reasonably priced goods and services, income and employment of a large number of people (Kauffmann, 2006). This vital sector has elicited keen interest and concern of governments and development agencies.

On the other hand, the growth of this sector has highly been curtailed by lack of adequate capital. This is where the tire meets the road. The savings and credit cooperatives have come in handy as part of financial sector deepening. Access to long term capital is crucial for economic development as evidenced by the positive relationship between long term capital and economic growth (Klapper et al, 2007). While using European countries data Aghion et al (2006) found that financial deepening (which Saccos is part of) benefit small size firms the most in terms of higher entry from higher financial development. Similarly,

access to financial services has been found to make enterprises innovate faster thereby providing quality goods and services (Ayyagari & Maksimovic, 2011).

Experimental evidence has confirmed the importance of access to credit for the growth of firms. Banerjee et al (2004) found a proportionate relationship between subsidized credit and increase in sales rather than a substitution of other non-subsidized credit, indicating that these firms were constrained in finance before getting subsidized credit. Other findings by Zia (2008) found that small non listed and non-group firms in Pakistan reduced their sales after they became ineligible for subsidized credit, an indication that lack of access to credit hampers their operations. Conversely, listed and group firms do not reduce their sales after losing access to subsidized credit implying that they can still access credit from elsewhere. This rubber stamps the importance of credit access, and indeed subsidized credit, to MSEs as than big companies.

In the Kenyan economy, the MSEs have limited access to financial services from formal financial institutions to meet their working and investments needs. According to Ochanda (2014), most MSEs are hindered by high cost of finance and lack of collateral for the new MSEs. However, the generation of self-employment in the MSEs requires investment in working capital, at low levels of income. The accumulation of such capital may be difficult (Ondieki & Mugambi, 2013). Under such circumstances, loans can help the poor willing to set up MSEs to accumulate capital and investment in employment generating activities (Beck et al, 2005).

The above observations are further emphasized by Mugambi and Ondieki (2013) who argued that further loans from SACCOs enable the individual members or enterprises to enjoy the benefit of economies of scale and development of new technology. As such, availability of credit to small business and low income households could greatly enhance their economic strength and eventually break the vicious economic circle of low income– low

saving – low investment – low income. Additionally, they noted that commercial banks, which were traditionally looked upon as powerful catalyst of economic development through mobilization and the provision of credit to profitable ventures do not offer credit to the rural poor or small business. Stringent lending policies and collateral requirements, cumbersome procedures and their perception of small business and the rural poor as risky, often leads to exclusion. This therefore catapults SACCOs as the major institutions that can greatly accelerate the growth of MSEs through credit financing.

Indeed, the White Paper on International Development, (2000) observed that governments throughout the world are nowadays turning their attention to small-scale enterprises. This is because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the populations concerned. Therefore, Micro and small enterprises (MSEs) are now viewed as important in even and equitable economic development. Kenya's policy on MSEs as outlined in the Sessional paper number 2 (Republic of Kenya, 2005) clearly show that the sector is not only a provider of goods and services but also a driver in promoting competition, innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. The sector should effectively respond to challenges of creating productive and sustainable employment opportunities, promoting economic growth and poverty eradication in the country. The Sessional paper further provides a framework that will support research and development to boost MSEs' access to appropriate technologies; encourage innovation and promote product design, development and quality control. MSEs will play a significant role in contributing to the national goal of wealth creation and making Kenya an industrialized country.

### ***1.1.1 The Cooperative Movement in the World***

According to Global Business Ownership survey (2012) the first statistical analysis to compare co-operative and conventional business ownership worldwide, it was found that there are one billion people who are member owners of co-operative enterprises in the world with three countries having over half their populations in co-operative membership in Europe. These are: Ireland (70%), Finland (60%) and Austria (59%). The countries with the most significant numbers of people in co-operative membership, however, are predominantly in Asia and the Americas. These are India (242 million), China (160 million) and the USA (120 million). Similarly, one in five people across the Americas, North and south, are a member of a co-operative while in Africa, one in thirteen people is a member of a co-operative and there are six times as many co-operative owners as there are shareholders.

The country with the widest shareholder ownership across its population is Japan (31%). In Japan, this has doubled over the past two decades, whereas in the UK, individual share ownership, compared to other institutional investors, has halved. Besides, in the fast-growing BRIC countries (Brazil, Russia, India and China), there are four times as many co-operative members as direct shareholders. 15% of their population is co-operative members, compared to only 3.8% who are shareholders.

According to key statistics as captured by WOCCU Statistical Report (2013) for six continents of the world namely; Africa, Asia, Caribbean, Europe, Latin America and North America and Oceania represented by 103 countries there are 57000 credit unions serving 208 million people with a penetration of 8.06%. In addition, these credit unions are worth USD 1.7 trillion in assets and USD 1.71 billion in reserves. The membership has mobilized USD 1.4 trillion and benefitted from loans of USD 1.1 trillion.

In Europe the cooperative movement began in the 19<sup>th</sup> century, primarily in England and France, although the Shore Porters Society claims to be one of the world's first cooperatives, being established in Aberdeen in 1498. The first consumer cooperative was founded on March 14<sup>th</sup>, 1761 in a barely furnished cottage in Fen wick, East Ayrshire. By 1830, there were several hundreds of cooperatives. Some were initially successful but most cooperatives founded in the early 19<sup>th</sup> century failed by 1840.

It was not until 1844 when the Rochdale Society of Equitable Pioneers established the Rochdale Principles on which they ran their cooperative that the basis for development and growth of the modern cooperative movement was established. According to European Cooperatives Performance Review (2010), cooperatives in Europe with its members represent a force for economic growth and social change of 123 million member cooperators owning 160,000 cooperative enterprises and giving jobs to 5.4 million European citizens.

### ***1.1.2 Savings and Credit Cooperatives in Africa***

In the African history the genesis of SACCO Societies was introduced in Ghana in 1959. The SACCO was established to help villagers better their economic status (Ng'ombe & Mikwamba, 2004). Notably, English speaking countries pioneered SACCOs. The first countries to establish SACCOs were Ghana, Uganda, Nigeria, Tanzania, and Kenya. On the contrary, Non-English speaking countries in Africa joined the movement SACCOs in 1960s with the highest number coming in by 1970s (Mwakajumilo, 2011)

The formation of SACCO in Africa grew tremendously to the extent that the African countries formed a continental association of SACCOs, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng'ombe and Mikwamba, 2004). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010). According to

WOCCU Statistical Report (2013), Africa has a total Sacco membership of above 17 million, with savings worth USD 4.897 billion and loans of USD 5.912 billion. Of the total savings mobilized by Saccos in Africa and loans advanced, Kenya contributes up to 54.31% of the savings and 63.14% of the Sacco loans.

### ***1.1.3 Savings and Credit Cooperatives in Kenya***

In Kenya, the first Co-operative Society was Lumbwa Co-operative Society formed in 1908 by the European Farmers with the main objective of supporting agricultural activities and products to take advantage of economies of scale (Kenya Union of Saving and Credit Co-operatives [KUSCCO], 2006). Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation.

Accordingly, steps were taken by the Government which saw the rapid growth and expansion of the SACCO Society movement in the country (Gardeklint, 2009). In fact, the SACCO movement is considered by the government as one of the economic pillars of the nation. By the year 2010, Kenya had over 5,000 registered SACCOs with a membership of about 7 million. These SACCO societies had mobilized savings of over Ksh. 200 billion (Republic of Kenya (RoK), 2008; Ndung'u, 2010).

As per the Sacco Supervision Survey (2010), the subsector had assets standing at 216 billion a growth of 11 % up from Kshs. 194 billion recorded in year 2009. This growth was explained by member deposits and share capital at Kshs. 164 billion comparing favorably with loans and advances that stood at 158 billion of the total assets a percentage of 73%. The balancing figure was retained earnings. According to SASRA Survey (2013), in Kenya, the Sacco movement has evolved in the past 40 years into a formidable force for the social and economic transformation of the Kenyan people. There are 12000 registered cooperative societies with a membership of over 7 million out of which 5000 are Saccos and 230 have

Front Office Service Activities (FOSAs) while the rest offer only credit facilities. Besides, about 63% of the Kenyan population directly and indirectly depends on the cooperative related activities for their livelihood and the Sacco sector has mobilized over Ksh. 200 billion in savings which is about 31% of the national savings

#### ***1.1.4 Tai Sacco Society Limited***

Tai Sacco Society is a Deposit Taking Savings and Credit Co-operative Society formed in 1992 and registered under the Co-operative Society Act and licensed by the Sacco Society Regulatory Authority (SASRA) domiciled in the Republic of Kenya. In its earlier years it served tea farmers in the old Kiambu district under the name Kiambu Tea Growers Sacco Limited until 2009 when it rebranded to TAI Sacco and opened the common bond in order to diversify its membership and offer inclusive service to its current membership derived from all walks of life.

Currently it has its headquarter at Githunguri and has spread all over Kiambu County with its branch network now standing at eight in the various sub-counties namely Kiambu County, Ruiru, Gatundu, Kamwangi, Kigumo, Githunguri. It serves a customer base of approximately forty thousand members, 60% of which are tea farmers and the other 40% are in the business sector. Currently it has its headquarter at Githunguri and has spread all over Kiambu County with its branch network now standing at eight in the various sub-counties namely Kiambu County, Ruiru, Gatundu, Kamwangi, Kigumo, Githunguri. It serves a customer base of approximately forty thousand members, 60% of which are tea farmers and the other 40% are in the business sector.

#### ***1.1.5 Micro and Small Enterprises in Kenya***

According to Kenya Economic Survey (2008) out of the 474,500 new jobs created, Micro and MSEs created 426,900 an approximate 89.9%. In 2009 of the 543, 300 new jobs created, the sector contributed about 79.9% of these (Economic Survey, 2009).

In terms of GDP, the sector contributed to the GDP about 59% of Kenya GDP (Republic of Kenya, 2009). This sector has shown a year by year growth in job creation through from the year 2010 and 2011 which saw growth by 5.1%. The growth rates for year 2012 and 2013 were 6.3% and 5.2% respectively. It is in no doubt that this sector plays a vital role in any economy. This sector is however not without challenges.

It is a sector which is increasingly volatile and experiences enormous business closure and shrinkage (Baard & Van Den Berg, 2004; Eriksson & Kuhn, 2006). Consequently, the Government of Kenya has a keen interest in helping MSEs develop through financial sector deepening. The high mortality rate of MSEs indicates their limited ability to create sustainable employment and as such may also cause great job and wealth losses (Ahwireng, 2003). Challenges notwithstanding, this sector is full of potential for increased job creation (Miller, 2013).

## **1.2 Statement of the Problem**

The MSEs' sector in Kenya ranks highly in its contribution to the economy of the country through the provision of employment and various incomes to a significant proportion of the population (Ngugi & Bwisa, 2013). However, despite this pivotal role, most MSEs hardly survive. In many instances, a majority of MSEs barely grow past start-up stage. According to Brian, Cant and Ligthelm (2003), in Africa, 70% to 80% of every 100 MSEs fail. In Kenya, three out of five businesses fail within the first three years of operation (Republic of Kenya, 2005).

In the international arena, a study conducted in Europe indicated a strong positive correlation between credit access and growth of MSEs (World Bank, 2009). While studying Saccos and formal credit facilities in Kenya, Mudibo (2006) indicated that one of the key constraints facing MSEs' entrepreneurs in Kenya inaccessibility to formal credit and financial

services to facilitate them to take advantage of economic opportunities to raise their level of productivity and develop.

Similarly, other studies that have been done include Rukwaro, (2000) who investigated the influence of credit rationing by MFIs on the operation of MSEs, Mokogi (2003) who studied the economic implication of lending of micro-finance institutions on micro and small enterprises. Mutugi (2006) studied the responses of micro finance institutions in Kenya to the turbulent business environment. Muchiti (2009) studied risk management strategies adopted by commercial banks in lending MSEs. None of the foregoing studies has undertaken to determine the effect of credit through savings and credit cooperatives on the growth of micro and small enterprises in Kiambu County. In this study therefore, the researcher seeks to fill this gap by carrying out a survey find out the growth characteristics of MSEs as a result of credit access from savings and credit cooperatives. To achieve the intended objective of the study, the researcher seeks to answer the following question. Does access to credit influence growth of MSEs?

### **1.3 Research Objectives**

This study will be guided by the following objectives:

Generally, the objective of this study is to determine the effect of access to credit through SACCOs to MSEs in Kenya by studying selected MSEs within Tai Sacco Society in Kiambu County. The following are the specific objectives;

- i. To determine the effect of amount of credit access on the financial performance of Micro and Small Enterprises
- ii. To establish the effect of level of frequency of credit on the financial performance of Micro and Small Enterprises
- iii. To determine the effect of credit terms on the financial performance of Micro and Small Enterprises

#### **1.4 Research questions**

This study attempts to answer the following research questions:

- i. How does the amount of credit access affect the financial performance of Micro and Small Enterprises?
- ii. How does the level of credit frequency affect the financial performance of Micro and Small Enterprises?
- iii. How do credit terms affect the financial performance of Micro and Small Enterprises

#### **1.5 Importance of the Study**

This study will be of significant importance to various individuals and organizations that have an interest in the growth and operations of SACCOs in Kenya.

The information from this study may enable the general public appreciate and understand the contribution of Saccos to the financial performance of MSEs. The study may also be beneficial to investors who are interested and are willing to start up SMEs and are seeking support from creditors such as Saccos. The study may help to various individuals running MSEs not only in Kiambu County but the country over to understand how access to finance can enhance their businesses.

The study may be of great value to Tai Sacco since it will be an indicator of how its business products have impacted on that definite clientele and get recommendations on how to improve them. Additionally, the study will also be useful to the government and other stakeholders responsible for developing policies and regulations that govern the development and operation of Saccos in the country. The study will be of great value to various Government and non-governmental institutions that seek to fund MSEs in accessing credit at the county level and national level. Specifically, the newly Devolved Governments, stand to benefit from this study by knowing how to incorporate Saccos in the distribution of the

devolved funds and special interest group funds such as the youth, PLWDs and women to the grassroots now that most Saccos have branches in the rural areas

There is a gap of knowledge on the influence of access to credit on the performance of MSEs in Kenya. The information from this study may, therefore, attract researchers who are willing to provide more information on the same area. Additionally, the study may also discover other research areas for consideration by other researchers that will contribute to existing knowledge on support for MSEs in Kenya. Finally, the study may also act as a source of literature for other researchers who are interested in carrying out their studies in the same field in sub-Saharan Africa.

### **1.6 Scope of the Study**

This study focuses on access to credit by MSEs in Tai Sacco Society Limited and the effect of such credit to the growth indicators of the same MSEs.

### **1.7 Limitation of the Study**

In carrying out this study, the researcher anticipates facing time limitation due to deadlines given. To overcome time limitation, the researcher will engage research assistants after training them especially to help in data collection. Secondly, the researcher may be limited by finances and, therefore, collected data from MSEs only within Tai Sacco Society and therefore the findings will only be generalizable for a similar Sacco in a County with a rural set-up. Thirdly, some respondents may be biased while giving information due to reasons such as privacy and busy schedule at their work place while others may not willing to respond.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter takes a systematic approach with three sections. The first section discusses the various theories on which credit access concept can be anchored. It also details the various concepts of measuring credit access to credit and concludes by equally detailing various approaches to measuring the financial growth of MSEs. Section two, on the other hand, concentrates on purposeful review of earlier done empirical studies locally and abroad to address the same issue of credit access and how the same impacts on growth parameters of MSEs. The third section captures a brief summary discussing the foundational theoretical review at this moment discussed and the accompanying empirical review.

Numerous efforts have been explored by policy makers to define the concept of MSEs in different economies. The various attempts have resulted into multi approach in understanding the concept of MSEs. The concept of MSEs varies from one country to another depending on the indicators used (Visser, 1997). Even though the definition varies from one country to another (depending on the economic structure), the regulatory and institutional framework for the Kenya's MSEs has been based on the number of employees and the company's annual turnover (MSE Act, 2012). For instance, the micro enterprises have been defined as those employing less than 10 workers with annual turnovers of less than KES 500,000 and capital formation of less than KES 5 million for services or less than KES 10 million for enterprises doing manufacturing.

Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES 500,000 and KES 5 million and capital formation between KES 5 million and KES 20 million for services or between KES 5 million and KES 50 million for enterprises doing manufacturing (see table 1 below).

**TABLE 1**  
**Classification of MSEs by the MSE Act, 2012**

Entity (Trade service, industry or business activity)	No of Employees /People	Annual Turnover Limit	Investment in Plant and Machinery + Registered Capital	Equipment Investment + Registered Capital
Micro Enterprise	Less than 10 people	Not exceeding KES 500,000	Not exceeding KES 10M	Not exceeding KES 5M
Small Enterprise	More than 10 but less than 50	Between KES 500,000 to 5M	More than 10m but less than 50M	More than 5m BUT LESS THAN 20M

*Source: GoK, 2010*

Generally, the MSE sector in the country comprises of manufacturing and trade (whole sale and retail) sub-sectors, with substantial engagement in agro-based activities, which, directly affects a larger population in the society.

## **2.2 Theoretical literature review**

This section forms the first section that goes into discussing the various theories that can help one understand the whole concept of credit access to MSEs

### **2.2.1 Financial Inclusion Theory**

Agrawal (2008) on the need for financial inclusion with an Indian perspective, financial inclusion has been defined as the process of ensuring financial services accessibility, sufficient timely and credit where needed by susceptible groups such as weaker sections and low income groups at an affordable cost. The whole concept of financial inclusion seeks to widen access and avail suitable financial products and services required by all sections of the society in general at reasonable cost, in a fair and transparent manner, by mainstreaming institutional players (Chakrabarty, 2011).

According to this survey financial services entail the entire gamut savings, insurance, credit and payments. An inclusive financial system should therefore be able to transfer resources from surplus to deficit units in form of credit, insure all insurable persons and entities and payment services for everyone (United Nations, 2006). It is at the discretion of the populace to select either of the components of inclusivity.

Amol & Agrawal (2008) reported that financial inclusion happens in a small group of the population and financial exclusion on the other hand is widespread in rural and poor regions with poor climatic conditions. Financial exclusion is the most rampant amongst those on low incomes. Unemployed people living on social security payments from the state are therefore particularly susceptible, as are low income households from minority communities who may also have relatively low levels of association with the financial services industry.

According to Kempson et al. (2004) while using data from an earlier done study, the uptake of financial products and services ranks low in African-Caribbean, Black, Pakistani and Bangladeshi households in UK usually explained by religious factors among this group which skews towards lending to a neighbor without asking for interest.

The World Bank Research Working paper No. 6025 on Global Financial Index analyzed how adults in 148 economies saved, borrowed, made payments and managed risk. The data showed that 50% of adults in the accounts in formal financial institution. However, account penetration varies from region to region, income group to income group and individual characteristics. In addition, 22 % saved in formal financial institutions in the past one year, and 9 % had acquired a new loan from a bank, credit union or microfinance institutions in the past one year.

While half of adults around the globe remain unbanked, about 35 percent of them associate the status with barriers to account use that might be addressed by public policy. Among the most commonly reported barriers are high cost, physical distance, and lack of

proper documentation, though there are noteworthy differences across regions and personal characteristics. World Bank (2008) while drawing on a global banking survey, identified price and non price barriers to financial access. Similarly, Beck, Demirguc-Kunt and Martinez (2007) classified the factors limiting financial inclusion into four main categories; physical barriers, lack of documentation barriers, affordability barriers and lack of appropriate products and services. The convenience to reach physical branches can be a measure of access where the population does not have to travel long distance to the next bank outlet and on the other hand the number of bank outlets in relation to the populace is also a good measure of access

### ***2.2.2 Minimalist Approach***

The argument of the Minimalists base is that there is a single “missing piece” for enterprise to grow. According to Ledgerwood (1999), lack of affordable and accessible short-term credit is usually the missing piece. According to Magboul (2006), minimalist programmes are usually implemented by microfinance institution such as agricultural/ farming banks and credit unions. This approach normally lender financial services such as savings, credit, insurance, credit card and payment systems. The departure from financial inclusion is that credit access is restricted to those who have tangible collateral as security. This has been a common approach by many financial institutions and MFIs.

The minimalist approach considers credit accessibility to low-income individuals as the only missing piece for income creation and, therefore, views provision of microcredit loans as a strategy for development. Minimalist programs majorly take up specific risk-managing and credit analysis ways that require certain level of social intermediation by use of loan officers, but keep away from the costs of additional development-oriented services or policies. This approach usually offers only financial intermediation, i.e. savings, credit cards, credit, insurance and payment systems.

Minimalist programs recognize that MSEs may require other development and social services, but they have to assume that other agencies will offer these, because supply of such services is not their corporate business. This mechanism offers the great benefit of having a distinct focus, which turns out to be more cost effective with time, so that financial backing that might have been essential to establish the program can steadily be eliminated (Ledgerwood, 1999).

The delivering of credit services to MSEs for the income generating activities is called a 'minimalist approach' in microfinance. The major purpose of this approach is to get to the bottom of the crisis of unemployment in general and micro enterprise growth in particular by supplying financial products. The current paper focuses on assessing the application of Minimalist approach by Tai Sacco through provision of credit to MSEs to solve the problem of MSEs development. The empirical study of minimalist approach indicates that microfinance will be a true oil for MSEs development if they are able to access finance which will have a positive impact on their capital and enable them increase their stocks and sales.

### ***2.2.3 Group Based Approach***

This approach uses group dynamics as security and involves weekly individual contributions which are deposited in one of group account. All the savings of the members are channeled through the group account and members may decide to create a revolving fund from where members can borrow or the fund can be used as guarantee to help the group get funds from external sources. According to Muguchu (2013) this approach rotates around use of group in lending without necessarily dwelling on the traditional physical securities in order to avail credit to extend entrepreneurs. This entails micro credit and the group psychology works just as well as physical collateral which impedes most MSEs from borrowing and accessing credit. Group Based Approach can use either recently formed groups or old ones.

This approach triggers peer positive influence and members feel joint liability. The ability to get a bigger loan depends on how such a member has been servicing the previous loans. Summarized, this approach concentrates on the character of the borrower more than the collaterals and it is responsibility of the entire group to do loan administration. This approach provides a better alternative to MSEs to access credit.

#### ***2.2.4 Imperfect Information Theory***

Imperfect information is a scenario in which parties to a transaction have diverse information, as when the merchant of a used car has more information about its value than the buyer. Sellers often have superior information about a good than buyers because they are more knowledgeable with it. Bearing in mind that financial institutions may not have the capability to differentiate good borrowers from bad borrowers and by extension good risk from bad risk, they result to stringent lending requirements that includes use of collateral to make borrowers pay in order to recover their collaterals.

This theory therefore rides on the assumption that it is hard before hand to tell who are good borrowers and who are not. The adverse selection theory of credit markets emanates from Stiglitz and Weiss (1981) paper. The theory rests on one main assumption that lenders cannot distinguish between borrowers of different degrees of risk. According to Muguchu (2013) formal and informal financial institutions are not at par in credit provision because informal lenders have superior information about the borrower(s) than formal institutions can obtain cost effectively.

#### **2.3 Empirical Review**

In this section the researcher seeks to review the information and theories currently available concerning credit access, its effect on the performance of MSEs and its historical background.

### ***2.3.1 Amount of Credit and the performance of Micro and Small Enterprises***

The effect of credit on profitability has elicited keen interest from various scholars who proceeded to conduct various studies published in scholarly journals. Several studies have been conducted to measure the effect of credit access on MSEs' profitability. Abdelateif, Hassan, Ibrahim and Bauer (2012) while assessing the effects of credit access on the profitability of Farms in North Kordofan State of rural Sudan showed positive relationship between access to credit and profitability of agricultural activities among households. However, the extent of gearing that is required to show results also matters. The study indicated very low gearing may not make a significant impact on farm production because production is machine dependent and this requires high investments.

Among the social-economic variables such as age of household, education level, and sex of household none showed a positive relationship on profitability contrast to earlier expectations but may have ambiguous effect the sustainability of agricultural production at least for short run. In summary this study concluded that there was need to assist clients by providing "credit plus" services that would include skill, training and marketing facilities, have safety net schemes beside credit and reduce the credit constraints in remote areas by providing soft loans at low interest rates to members through group lending. Dunn (2001) conducted a study on the impact of micro credit on micro-enterprises in Peru. She found that program clients' enterprises performed better than non-client enterprises in terms of profit, fixed assets and employment.

By contrast, Hill and Lockhart (2012) investigated 10,648 companies during the period of 1973-2006, and they find that there is a positive linear relationship between shareholders value and accounts receivable. Furthermore, Kestens et al (2012) studied how credit influence company performance. They examined the non-financial Belgian companies

during the period of 2006- 2009 and they concluded that “companies that increased trade receivables during the 2008 financial crisis compared to pre-crisis seasons have a comparatively higher profitability in crisis years” (2012:1132). Likewise, Garcaí-Teruel and Martn ez-Solano (2014) investigated the relationship between profitability and debtors of 71, 635 firms in Spain in the period between 2000 and 2007. They found a positive linear relationship between investment in credit and firm profitability as well.

Habibulla (2011) conducted a study amidst the poor MSEs’ entrepreneurs in Bangladesh and Zimbabwe to find out how access to credit from banks impacted on their business. He found out that in both studies business financial performance measured by turnover, noncurrent assets purchases and investment in new technology while household studies concentrated on how increased turnover from businesses impacted on salaries and wages to establish a connection point between credit access from banks and the eventual welfare of the poor.

Both studies indicated need for an increased access to credit to MSEs by financial institution to boost their financial performance and eventually create a ripple effect of welfare of the poor. Banerjee and Duflo (2004) in their study in India researched on MSEs’ performance prior and post gearing. They concluded that firms’ turnover grew in relation to the amount of gearing thereby indicating that firms’ growth was constrained by inaccessibility to credit.

Although some SMEs do not have high profit margins, they still regard credit as an efficient way to boost sales and increase profitability (Garcaí-Teruel & Martn ez-Solano, 2014). As indicated in non-price competition theory, SMEs have less market power in comparison to large enterprises. SMEs do not have benefits to leak into the market via price war since large enterprises gain advantages from huge capital supports and economies of scale. As a result, SMEs, in order to increase their market shares and profitability, prefer to

provide credit (Garcaí-Teruel & Martn ez-Solano, 2014). Additionally, Atandi and Wabwoba (2013) found out that the effect of credit availability to MSEs on increasing market share pointed out that credit availability does not guarantee a larger market share.

Cecchetti and Kharroubi (2012) carried out a study to reassess the impact of finance on growth. The study focused on investigating how financial development affects aggregate productivity growth. Based on a sample of developed and emerging economies, the study found out that level of financial growth is good only up to a point, after which it becomes a deterrent on expansion, especially increase on the stock levels. Secondly the study, focusing on advanced economies, found out that a fast-growing financial sector is detrimental to aggregate productivity growth.

Nkurunziza (2005) carried out a study in Kenya to assess the effect of credit on growth and convergence of firms in Kenyan manufacturing. The study found out that the use of credit from banks can affect the growth of the firm in two differing ways. The effect may be positive if credit allows an organization to check its liquidity constraints and raise its profitability. On the other hand, if macroeconomic volatilities such as increases in interest rates results in firms' debts becoming unsustainable as the scenario in Kenya in the 1990s, indebted firms may reduce in size or even collapse. Additionally, using microeconomic data on the Kenyan manufacturing sector, the study found that survival as a constant, the firms that utilize credit grow at a higher rate than those not using it.

Mwangi, et al (2013) carried out a study in Kenya to evaluate the level of financing and development of MSEs in Mombasa County. The objective of this research was to find out the link between financing institutions and the level of growth of small and medium enterprises in Mombasa County. During the research, it was found out that several factors contributed to the growth and expansion of MSEs in Mombasa County as it is also expected in other parts of the country. The component of financing came out clearly as a major factor

that comes in positively to the development of MSEs in terms of enabling MSEs develop their stock levels and hence improve on the amount of customers they serve. The study covered various classes of MSEs which included formal, informal, public and private owned enterprises.

It was interesting to note that most of the MSEs could not go beyond the third year incubation period due to lack of sufficient and relevant financing information and lack of access to credit from major finance providers such as banks. Empirical evidence from this study suggests that MSE operators need information on available bank loans, sources of business finance, MSEs' loan schemes, information on venture capital and other types of finances.

A study conducted by Dunn (2001) in Peru indicated that non current assets as indicators of firm performance had a positive response from injection of credit. In addition, Muguchu (2013) studied the relationship between access to credit and financial performance of small and medium enterprises in Nairobi and found out that access to credit did often times come with an increase in fixed assets. The study concluded that whenever an MSE has a minimum amount of fixed asset while at the same time its risk is measured by standard deviation of ROA is not favourable these negatively influences the MSEs. She concluded that for MSEs to optimize their performance there was need for gearing.

Atandi and Wabwoba (2013) carried out a study with the objective of carrying out a study to establish the effect of credit availability to MSEs on their performance in Kitale town. Purposely, their research was to determine the effect of credit on the nature of assets obtained, stock levels held, market share commanded by the business and the number of employees added in business. The study aimed at determining the effect of credit availability on business performance of MSEs in terms of the value of assets obtained. It was found that credit available to MSEs does not necessarily lead to addition of assets.

### ***2.3.2 Frequency of Access to Credit and Performance of Micro and Small Enterprises***

Mochona (2006) studied the impact of microfinance in Addis Ababa-Ethiopia. He assessed the impact of microfinance on women micro enterprises that were clients of Gasha Microfinance Institution. The research findings indicated that only a few of the women clients of the Gasha Microfinance Institution reported increased incomes from their micro enterprise activities. It was also noted that majority of the respondents expressed dissatisfaction with the loan processing procedure and time taken to secure the loan.

Most present and ex-clients faced major risks in running their businesses and therefore dropped out of the micro finance program as they were pushed into indebtedness and could not repay the loans. Although savings were made regularly, majority of the women clients of Gasha Microfinance Institution were unable to build key assets since the savings were dismal. The study recommended giving individual loans instead of group loans and that extending the loans beyond the maximum loan size ceiling of 2000 Birr to match varying borrowing powers of clients may meet credit and business needs of diversified clients. Also, improving technical and business skills of clients through training will enhance their business skills to use credit and establish market channels for their products until they do that independently.

Rahmat and Maulana (2006) researched on the Impact of Microfinance to Micro and Small Enterprise's Performance Indonesia. Results of the study indicated that Microfinance has positive impact to improvement of MSE's performance indicated by sales. Doubling the amount of loan was found to have a negative impact on the performance indicated by income and savings. To address this negative impact, the recommendation was that it is very important to allocate the loan to the productive activities, such as investment, in a way that improves the business opportunity.

K'Aol (2008) in his research paper on the role of microfinance in fostering women entrepreneurship in Kenya assessed the impact of Microfinance funding on women entrepreneurship in Kenya. The population consisted of women entrepreneurs who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans from K-REP. The most significant impact evident among the women entrepreneurs involved in farming activities was that the number cattle they owned had doubled after taking the loan.

In the Philippines Mahabub and Catila (2007) compared older borrowers of card microfinance with newer borrowers. They found that productive capital as well as ability to finance expansion from borrowers own funds increased with the number of loans taken from CARD microfinance. Income from older borrowers' micro enterprises was 3.5 times higher than for newer borrowers' enterprises. Older borrowers also increased income from other sources. Regression results showed that every 'peso' borrowed from CARD microfinance yielded 3 'pesos' in income

Barnes (2010) examined the impact of continuing clients and new clients of Zambuko trust as well as program drop outs and a comparison group of non-participants in Zimbabwe. The comparison group was comprised of entrepreneurs who met Zamuko eligibility requirements including that they had owned an enterprise for at least six months. The results Showed benefits of repeated borrowing with only 22 percent of continuing clients earning below a dollar day versus 40 percent of non clients and 42 percent of incoming clients. However, while the income of continuing clients was significantly higher in 1997 than the income of other groups, by 1999 the difference was no longer statistically significant though continuing clients still earned the most.

Bolnick and Nelson (2010) conducted a study in Indonesia to evaluate the impact of credit programs on small enterprises. They found that those who participated in programs their production level increased as well as sales. Copestake et al. (2010) found that those borrowers who were able to obtain two loans experienced high growth in profits and household income compared to a control sample, but borrowers who never qualified for the second loan were actually worse off.

A study carried out in the Dominican Republic by Ademi (2006) concluded that the program had a positive short term effect on the beneficiaries. The study centred on the effect of borrowing by SMEs on variables such as fixed assets, sales, savings, salaries and employment. The findings revealed that fixed assets recorded an increase of between 8 to 54 percent and employment increased by between 2 to 27 percent, and savings by participating SMEs increased significantly. From a study carried out in India, Banerjee and Duflo (2004) studied financial performance of small and medium-sized firms both before and after they accessed loan. The study concluded that these firms began to expand their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

In his study, Buckley (2007) concluded that there is was little evidence to suggest any significant and sustained impact of access to credit on beneficiaries in terms of micro entrepreneurs graduating to higher or more sophisticated operations, increased income flow or level of employment. The main argument was that improved access to credit and markets was not sufficient unless there was an accompanying change in the undertakings themselves i.e. changes in techniques and technology.

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Tang (2014) carried out an empirical review of literatures on the credit and profitability in small and medium enterprises. The study focuses on how credit, from both the supplier side and the demand side, influences the profitability of SMEs. He study investigated 71 SMEs in Netherlands from 2009 to 2013. The findings suggested that SMEs can create a long-term relationship with their suppliers to acquire credit since accounts payable is positively linked to the profitability. However, the study found out that there is no significant relationship between accounts receivable and profitability.

Rahmat and Maulana (2006) in their study on the effect of bank credit to the performance of MSEs in Indonesia. The research showed that bank credit had a positive correlation to the performance of MSEs as portrayed by turnover. However, when the MSEs got twice as much loans negative correlation emerged in relation to income and savings and therefore they concluded that acquired credit should be invested in productive business that raises the stakes of the business.

### ***2.3.3 Credit Terms and Performance of Micro and Small Enterprises***

Access to financial services by small holders is normally seen as one of the constraints limiting their benefits from credit facilities (Gockel et. 2002). This is reflected in the institutions' strict lending policies, displayed in the form of collateral requirement, repayment

period, first account operating requirement and maximum loan amounts. Financial institutions' lending policies often determine the access problem; when credit terms and provision of supplementary services do not suit borrowers they will not apply for loans or their applications will be rejected (Guirkerger, 2006). The access problem is further complicated by the restriction of credit to a few sectors of the economy (Jaime, 2006).

Beck, Demirgüç-Kunt and Maksimovic's (2005) study on firms in 54 countries confirms that financial constraints limit firm growth, especially small firms. At country level, Rahaman (2011) estimates that a 10% increase in bank credit result in an 18.14% increase in growth of the sample firms in Ireland and the UK. Khandker, Samad and Ali (2013) test the impact of access to finance on microenterprise growth and profitability in Bangladesh using a fixed-effect model. Their results suggest that credit constraints negatively affect microenterprise's profit margin more severely than other types of constraints (such as transportation, lack of demand, etc.)

Atieno (2006) and Steel (2004) have further explained that limited access to credit can also negatively affect profitability and financial survival if firms operate under poor economic conditions and high interest rates. On the other hand, if credit is accessible and reasonably priced, firms can address their liquidity constraints in turn aiding profitability (Laferrara, 2003). Due to the high collateral requirements, unfavorable interest rates and untimely delivery of credit SMEs are reluctant to obtain loans. In addition, access to credit by SMEs is limited since banks have failed to expand SME loans due to high transaction costs, imperfect information, high number of borrowers and low returns from investments. This will result in reduced financial performance in terms of sales, profits and liquidity (Olutunla and Obamuyi, 2008).

Additionally, Garcaí-Teruel and Martn ez-Solano (2010) also found out that although some SMEs do not have high profit margins, they still regard credit as an efficient way to

boost sales and increase profitability. By loosening the credit terms, suppliers can reduce storage costs for uncertain demands of goods and costs of varying their level of production when demand shifts.

Abor (2007) carried out a study to assess the effect of debt policy (capital structure) on the Small and Medium-sized Enterprises' (SMEs) financial performance in Ghana and South Africa. Using various measures of performance, including the total non-current assets that the SMEs owned, the results of this study indicated that capital structure influences performance, although not exclusively. By and large, the results indicated that capital structure, especially long-term and total debt ratios, negatively affect the ability of the SMEs to perform and own fixed assets. The study mainly focused on investigating the effects of debt financing on the SMEs' operations in Masvingo. Both quantitative and qualitative research designs were used in the study. The study adopted a sample size of 80 SMEs where the primary source of information was by means of a survey. On the other hand, secondary source of information was from SMEs' records. The findings from the study indicated that debt finance had a positive effect on SMEs' productivity.

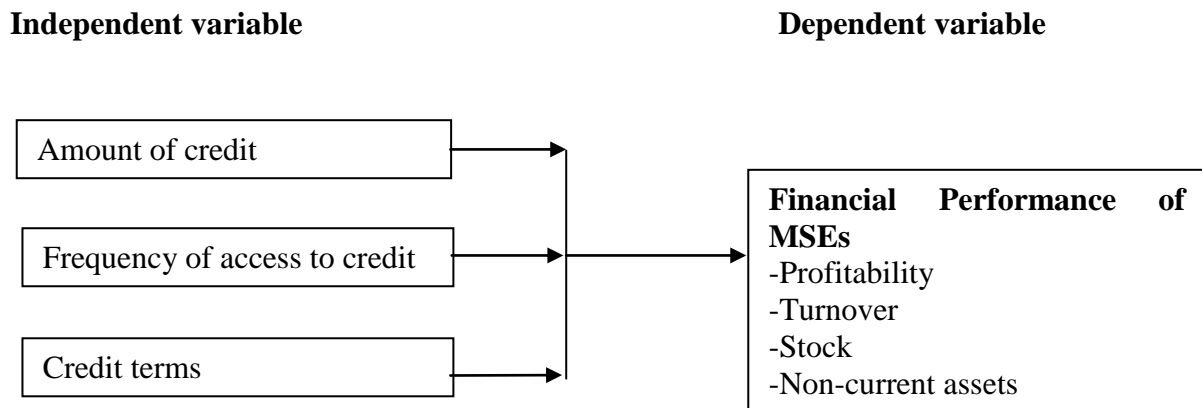
In addition, the study pointed out that firms which acquired sufficient funding from financial institutions improved their productivity. The study also found out that the cost of seeking finance was relatively high to enable firms to borrow sufficient finance required for investment. In conclusion, the study indicated that the level of debt in capital structure of the SMEs assisted in the improvement of their productivity and enable them invest in capital intensive products such as fixed assets. The study recommended that financial institutions should offer SMEs with long-term debt to provide a level field for capital equipment investment to enhance their future productivity. The study also recommends the lowering of interest rates to motivate MSEs acquire enough funds to invest in capital equipment and other fixed assets.

Konare (2001) found out that the high borrowing costs reflected by high interest rates are perennial complaints among most borrowers, constrain credit accessibility because borrowers need a return on their investment. Many borrowers who proceed to access loans at such rates have under-gone liquidation or lost their highly valuable collateral to lenders as a result of defaulting on repayments. In support of the above assertion, Collins et al (2002) study found out that credit constraints limit the size of firms as well as their growth, profits, activations and liquidations; the scope of operation may also be limited. Since MSEs is the back bone of most developing economies, credit constraints to the sector are of first-order importance for the performance of these economies.

## 2.4 Conceptual framework

This conceptual framework has been developed from various studies (Agarwal, 2006; Nakiyingi, 2010; CGAP, 2009; Kelley & Nakosteen, 2005; McMahon, 2001)

**FIGURE 1**  
**Conceptual Framework**



Source: Researcher (2015)

This conceptual framework illustrated in figure 1 above indicates how access to finance as independent variable, while financial performance of MSEs is the dependent variable. The framework shows the effect of access to credit on MSE financial performance. The interdependence between credit access and financial performance of MSEs is illustrated.

## 2.4 Research hypothesis

Resulting from the reviewed literature and the conceptual framework, the following hypothesis is stated:

*H<sub>0</sub>: Amount of credit, frequency of credit and credit terms have no significant effect on financial performance of MSEs*

*H<sub>1</sub>: Amount of credit, frequency of credit and credit terms a significant effect on financial performance of MSEs*

**TABLE 2**  
**Operationalization of Independent Variable**

Concept	Dimensions	Elements
Credit accessibility	Amount borrowed	Total amount borrowed and proportion of MSEs having access to loans Tai Sacco
	Frequency of access	Number of times an MSE repeatedly accesses credit from Tai Sacco
	Credit Terms	Interest rates on loans of Tai Sacco, repayment and grace period to repayment of the Tai Sacco loans

**TABLE 3**  
**Operationalization of Dependent Variable**

Concept	Dimensions	Elements
Financial performance of MSEs	Profitability	Business supports more customers
		Increased profit margins
	Turnover	high sales turnover
		enough stock for customers
		stock more goods and offer a variety of services
	Stock levels	Economies of scale that arise from buying more stock at once
		Enough stock to meet the demand
		Amount of stock at a given time
	Fixed assets	Increased or decreased

## **2.6 Summary**

In a nutshell, from the discussion above entailing both theoretical and empirical review, it puts it in black and white that most MSEs stagnate as a result of lack or minimal access to credit. In effect this inhibits this important sector of any country's economy to grow. The alternative capital sources remain ploughed back retained earnings and irregular savings. Part of the reason why it's hard for MSEs to access credit is lack of proper records that makes financial institutions to assess credit capacity of MSEs yet lack of credit means decelerated growth indicators such as sales, profitability and employment. It would however be misleading to assume lack of credit is the only inhibiting factor of growth of MSEs

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides a sneak preview into the research methodology that was adopted by the study with specific highlights on the research design, target population and sample frame, samples and sampling procedures, instrumentation, data collection, data analysis techniques, and ethical consideration all geared towards achieving the objective the study. Section one of this chapter describes the research design that was chosen and the justification of the choice of the design for the study. This is followed by a description of the population, the sampling frame and justification for the same. The subsequent section describes the data collection method to be followed by various techniques that was used in the analysis of data.

#### **3.2 Research Design**

A research design is the universal plan of how a researcher goes about answering the research queries (Orodho, 2005). The research design of this study was a descriptive survey research. A descriptive survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitude, behaviour or values (Saunders et al., 2007). This design was considered appropriate for this study as it facilitated description of the situation of the research as they exist without alteration or manipulation of variables.

#### **3.3 Study Population and Target Population**

According to Mugenda and Mugenda (2003), a population is an entire group of individuals or events or objects having common observable characteristics that conform to a given specification. The population of this study therefore includes the MSEs banking with Tai Sacco society. Target population refers to the population which the researcher wants to generalize results about (Mugenda & Mugenda, 2003). The target population of the study was MSEs that accessed loans from Tai Sacco Society in 2013. As of 2013 Tai Sacco Society had

850 MSEs that accessed loans from the Sacco. These loans targeted the MSEs' sector. The distribution of the target population is as shown in table 4 below.

**TABLE 4**  
**Target Population**

<b>Name of Branch</b>	<b>Population</b>
Githunguri	150
Gatundu	101
Kamwangi	84
Kagwe	68
Kigumo	103
Ruiru	180
Thika	164
<b>Total</b>	<b>850</b>

*Source: Tai Sacco Records (2013)*

### **3.4 Sample Size and Sampling Techniques**

Sampling frame defines the populations from which a sample will be drawn (Mugenda and Mugenda, 2003). This study grouped MSEs accessing credit from Tai Sacco into seven groups based on the branches of Tai Sacco in Kiambu County from which they were served as shown in Table 4 above. It is from these branches that a sample was drawn. Cluster sampling technique was employed for the survey. The cluster sampling technique involves the dividing of the population into clusters or groups and then drawing samples randomly from each group to interview (Kumar, 2005). This was necessary so as to ensure that each group is represented in the entire sample, which was selected for the study; in proportion to their numbers in the entire targeted population. The sampling units were the Tai Sacco branches in Kiambu County. Each selected branch formed a cluster from which the sample was drawn.

While Kothari (2002) proposes a sample of at least 30% of the target population, Mugenda & Mugenda (2003) proposes a sample size of at least 10%. For this study a proportion of 20% of the target population was selected as the representative sample as advised by the above stated scholars. The justification for using 20 % of target population

giving a total of 140 MSEs used in the study has been captured in the limitations of the study outlined herein. Based on the target population (850 MSEs that accessed loans from Tai Sacco in 2013), the sample size was 170 MSEs. The samples from the seven branches in Kiambu County was composed of respondent MSEs as shown on table 5 below:

**TABLE 5**  
**Population size and sample size**

<b>Cluster</b>	<b>Population</b>	<b>Sample</b>	<b>Percentage</b>
Githunguri	150	30	20%
Gatundu	101	20	20%
Kamwangi	84	16	20%
Kagwe	68	14	20%
Kigumo	103	22	20%
Ruiru	180	36	20%
Thika	164	32	20%
<b>Total</b>	<b>850</b>	<b>170</b>	<b>100%</b>

*Source: Tai Sacco Records (2013)*

### 3.5 Data Collection Instruments and Procedure

Data was collected using questionnaires. The questions in the questionnaires were both open ended and closed ended questions. The questionnaire was designed to collect binary, qualitative and quantitative data. The questionnaires were given to the MSE owners or their representatives in Kiambu County. The questionnaire was divided into 5 sections. Section A entailed profile of the respondents; Section B entailed questions on the influence of access to credit on profitability; Section C entailed questions on the influence of access to credit on turnover; Section D entailed questions on the influence of access to credit on stock; and Section E focused on how all the three independent variables affected MSEs performance independently.

The researcher visited and interacted with respondents to explain the purpose of the study and build rapport. The researcher then personally administered the questionnaire by interviewing the respondents with the help of two research assistants. The data collection was, depending on availability of respondents, conducted within a period of five (5) days.

Secondary data was collected from documents and records of Tai Sacco on their customers, the amount of loan they have accessed in the past three years and the impact the access to loan have on their performance.

### **3.6 Piloting of Research Instruments**

A pilot study was conducted prior to the main study in testing the validity and reliability of the questionnaire in generating the intended responses ten questionnaires were piloted from Githunguri branch prior to the main study. This was through drop and pick method. Analysis of these responses was conducted through R studio software for research analysis to test the questionnaire's usefulness in collecting data required for this study. The indications were that the questions were sufficient to collect the required data for formulation of analysis.

### **3.7 Reliability of Research Instruments**

An alpha correlation coefficient was applied by the researcher in testing the internal consistency or reliability of the questions. The researcher used the R software to test for the reliability relative to the coefficient's range given at  $-1 \leq \alpha \leq 1$ . The statistical result provided  $\alpha = 0.7$  indicating that the questions would be reliable to generate the intended results. This value indicated an internal consistency or reliability of the questionnaire

### **3.8 Data Analysis**

The researcher used descriptive, inferential and test statistics to analyse data collected. Once the raw data was collected it was cleaned and then edited for completeness and consistency. It was then systematically organized to confirm if it represented the target population and to facilitate objective analysis at a later stage. The responses were also screened for correctness and accuracy and then they were assigned numerical values which were representing various attributes being measured.

The data analysis tools of Statistical Package for Social Scientists (SPSS, V.20), Microsoft Excel and R studio were used to analyse quantitative data, to give a deeper insight

into the responses from the respondents regarding subject of the research. A linear regression analysis was used to establish the relationship between the variables.

The regression equation used was as follows:

$$\text{MSEP} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + E_0 \dots \dots \dots (i)$$

Where;

MSEP is the dependent variable (MSEs' performance),

$\beta_0$  is the regression coefficient,

$\beta_1, \beta_2, \beta_3$ , are the slopes of the regression equation,

$X_1$  is the level of credit access,

$X_2$  is frequency of credit access,

$X_3$  is level of credit terms, while

$E_0$  is an error term normally distributed about a mean of 0 and for purposes of computation,  $\alpha$  is assumed to be 0.

### 3.9. Ethical Considerations

The research addressed the following research ethics: voluntary and informed consent, confidentiality and privacy and plagiarism. Before the questionnaire was administered to the respondents, the researcher sought permission to conduct the study. Respondent consent was sought through an informed consent note which clarified that participation was voluntary. No photographs or audio recording was taken. This served as necessary information that helped the respondents decide to participate in the study.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION OF FINDINGS

#### 4.1 Introduction

This chapter addresses the results and the interpretation relating to the sample characteristics of the survey respondents. The analysis was guided by the research objectives and the statistics were generated with the aim of generating responses from the research questions. The presentation was guided by the following research objectives:

#### 4.2 Response Rate of Employees

This shows the number of respondents who take part in the study in relation to the sample size and usually it is expressed as a percentage. It is thought to be the result of dividing the number of the people who filled the questionnaires by the total number of people who were eligible to participate and would have responded.

A higher response rate is preferable since the missing data is not random although there is no known satisfactory statistical solution that can reliably deal with missing data that is thought not to be random. If the researcher gets a high response rate from a small random sample is considered superior to a low response rate from a large sample. Table 6 below provides a summarized report of the response rate;

**TABLE 6**  
**Distribution of the response rate of the respondents**

Branch	Target Sample Size	Responses	Percentage
Githunguri	30	27	90
Gatundu	20	17	85
Kamwangi	17	15	88
Kagwe	14	12	85
Kigumo	20	17	85
Ruiru	36	34	94
Thika	33	31	94
Total	170	153	90

*Source: Tai Sacco Records*

Table 6 above indicates that a total of 170 MSEs, 20% from each branch namely Githunguri, Gatundu, Kamwangi, Kagwe, Kigumo, Ruiru and Thika in Kiambu County were sampled for analysis in this study. Data from 160 of the MSEs was collected representing 90% response rate. Of those data was collected from 18% were from Githunguri branch, 11% were from Gatundu branch, 10% from Kamwangi branch, 8% from Kagwe branch, 11% from Kigumo branch, 22% from Ruiru branch and 20% from Thika branch. Table 6 below indicate the facts well. Out of the targeted sample size of 170 MSEs owner/managers, 153 responses were received and used for analysis. This resulted to a response rate of 90% which the researcher found to be sufficient for analysis.

### **4.3 Demographic Characteristics**

The study was done in Kiambu County and all the respondents were drawn from the seven branches of Tai Sacco Society. The demographic characteristics of the respondents were as analysed below:

#### **4.3.1 Gender of respondents**

Results indicated that the larger proportion of the respondents were males constituting 52.3% compared to their female counterparts who formed 47.7% of the sample. This indicates generally that MSEs sampled were majorly run by men as shown in table 7 below;

**TABLE 7**  
**Distribution of the Gender of respondents**

<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
Male	114	74.5
Female	39	25.5
<b>Total</b>	<b>153</b>	<b>100</b>

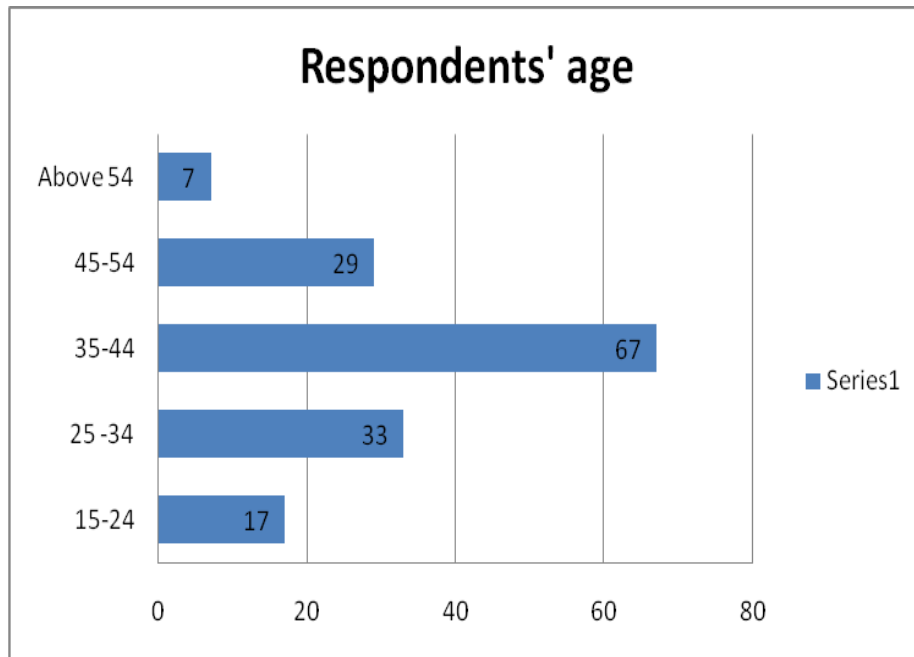
*Source: Primary Research data*

#### **4.3.2 Age of respondents**

From figure 2 below, results showed that the larger proportion of the respondents were in the age bracket of 35-44 years forming 43.8% (67). Next on the line was the age bracket 25 – 34

forming 21.6% followed by 45 -54 years which constituted 19% and the lowest ages of the respondents were 15 -24 and more than 55 who formed 11.1% and 4.6% respectively. This shows that most owner/managers of the MSEs are between 35 and 44 years of age.

**FIGURE 2**  
**Distribution of age of the respondents**

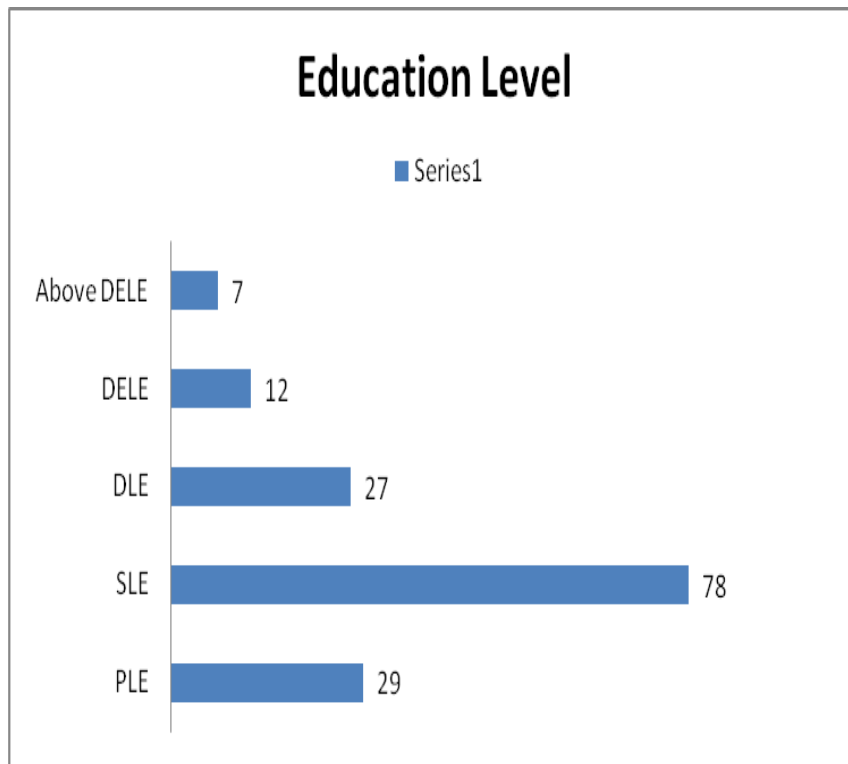


**4.3.3 Level of Education of the respondents**

From figure 3 below, out of the 153 owners/ managers of MSEs, 51% (78) had Secondary level education, 17.6% (27) had diplomas, and 7.8 % (12) had Degrees while 4.6 % (7) had Masters. This shows that the largest proportion of the respondents had secondary education level, meaning that the population sample was made up of relatively learned and experienced owner/managers.

**FIGURE 3**

**Distribution of Level of Education of the respondents**



**4.3.4 Age when the Respondent Started Business**

From table 8 below, results showed that the larger proportion of the respondents started their MSEs while in the age bracket between 26-35 years forming 49.7%. Following this were the age brackets 36 – 45 forming and 18 -25 that tied at 18.3% followed by 46 and above while at the bottom was age below 18 forming 8.5% and 5.2% respectively

**TABLE 8**  
**Distribution of Age when the Respondent Started Business**

Bracket	Frequency	Percentage
Below 18	8	5.2
18-25	28	18.3
26-35	76	49.7
36-45	28	18.3
46 and above	13	8.5
<b>Total</b>	<b>153</b>	<b>100</b>

*Source: Primary Research Data*

#### 4.3.4: Number of employees in the MSE

From table 9 below, results showed that the larger proportion of the respondents have their MSEs employing only one person forming 77.1%. Following this were those employing 2 – 4 forming and 5 -8 that had 18.3% and 2.6 respectively. Those with more than 8 employees formed a paltry 2%

**TABLE 9**  
**Distribution of number of employees in the MSE**

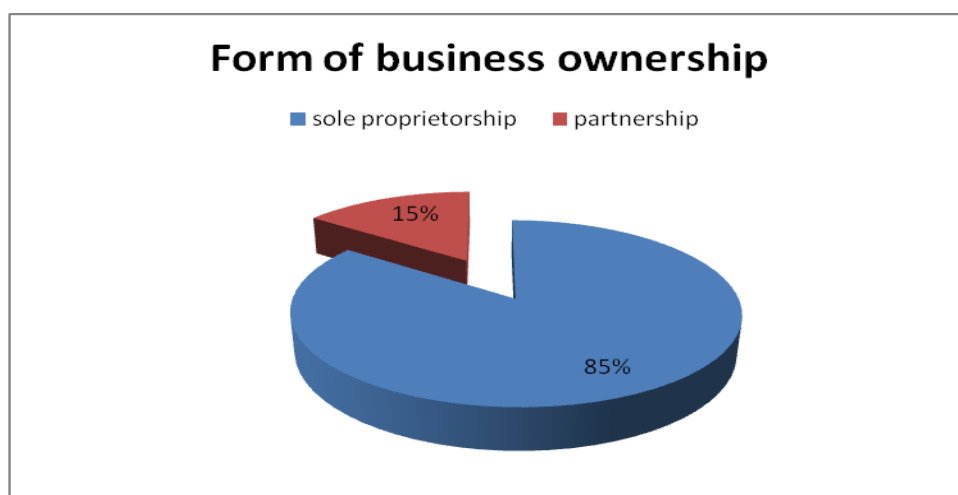
Employees	Frequency	Percentage
1	118	77.1
2-4	28	18.3
5-8	4	2.6
9-15	2	1.3
16 and above	1	0.7
<b>Total</b>	<b>153</b>	<b>100</b>

#### 4.3.5: Form of ownership of Respondents' business

The researcher sought to establish the form of business ownership adopted by MSEs and found out that the most common form was sole proprietorship with 85% compared to partnerships that carried 15% as depicted in figure 4 below

**FIGURE 4**

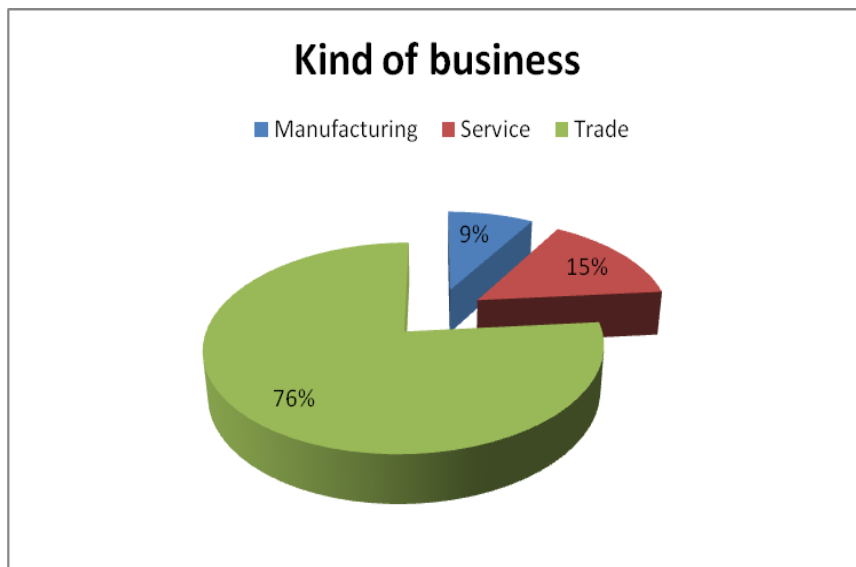
**Distribution of form of ownership of Respondents' business**



#### 4.3.6: Kind of Respondents' business

The researcher sought to establish the kind of business done by MSEs and found out that the most common kind was trade that had 76% compared to service and manufacturing that carried 15% and 9% respectively as depicted in figure 5 below;

**FIGURE 5**  
**Distribution of Kind of Respondents' business**



#### 4.3.7: Number of years of existence of respondents' business

The researcher sought to establish the number of years that the MSEs had been in existence and found out that the most MSEs had been there for the period 2-10 years (48.4%) as depicted in the table 10 below;

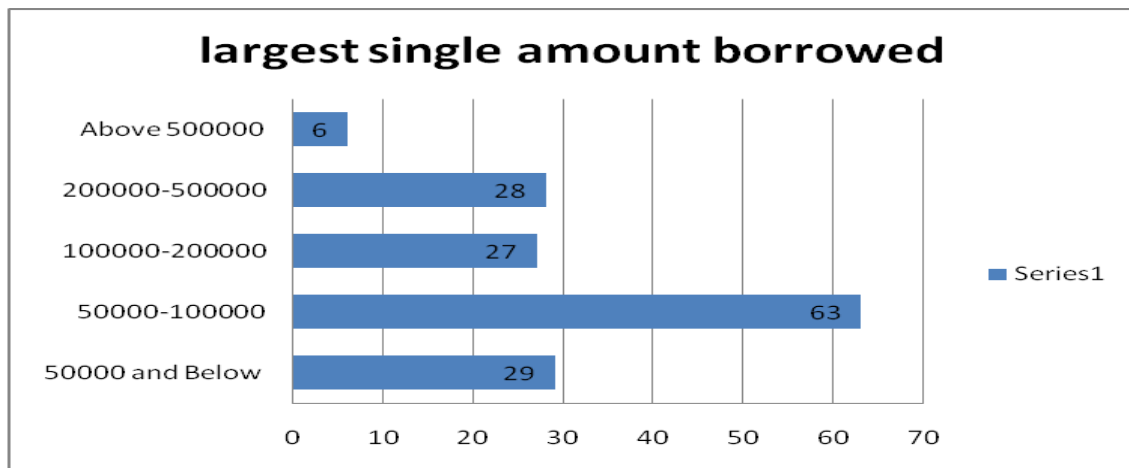
**TABLE 10** Distribution of number of years of existence of respondents' business

Years	Frequency	Percentage
< 5	38	24.8
2-10	74	48.4
>10	41	26.8
<b>Total</b>	<b>153</b>	<b>100</b>

**4.3.8: Largest Single Amount Ever Borrowed**

The researcher sought to establish the largest single amount of credit that MSEs had accesses and found out that the most MSEs borrowed amounts between 50,000 and 100,000 as depicted in figure 6 below

**FIGURE 6**  
**Distribution of largest single amount ever borrowed**



**4.3.9 Times the respondent has borrowed from Tai Sacco**

The researcher sought to establish the form number of times individual MSEs had borrowed and found out that the most MSEs had borrowed once as depicted in figure 7 below

**TABLE 11**  
**Distribution of number Times the respondent has borrowed from Tai Sacco**

Years	Frequency	Percentage
Once	77	50.3
Twice	42	27.5
Thrice	18	11.8
>3	16	10.5
Total	153	100

**4.3.10 Effect of amount of credit on the financial performance of MSEs**

To establish the effect amount of credit has on the financial performance of MSEs, the independent variable was studied and the results obtained tabulated as shown by table 12 below. The tabulated results, 3.3% strongly disagreed that the amount of credit obtained

affected their profitability, 7.2% disagreed, 8.5% were neutral, 66.7% agreed that amount of credit affected their profitability while 14.4% strongly disagreed.

On the other hand, 9.2% strongly disagreed that Tai Sacco offers sufficient credit, 9.2% disagreed, 11.8% were neutral, 63.4% agreed that Tai Sacco offers sufficient credit while 6.5% strongly disagreed. From table 12, 5.2% indicated that their profits increased with amount of credit, 6.5% disagreed, 15% were neutral while 65.45 agreed that their profits increased with amount of credit and 7.8% strongly agreed.

Besides, 2% strongly disagreed that amount of credit increased their stock level, 7.8% disagreed, 13.1% were neutral while 73.2% agreed that amount of credit increased their stock level and 3.9% strongly agreed. Finally, 3.9% strongly disagreed that amount of credit increased their turnover, 9.8% disagreed, 13.7% were neutral while 54.2% agreed that amount of credit increased their turnover and 18.3% strongly agreed.

**TABLE 12**  
**Distribution of how amount of credit affects the financial performance of MSEs**

	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
a) The amount of loans I get from Tai Sacco has enabled my business support more customers hence ensure my increased profit margin	3.3% (5)	7.2% (11)	8.5% (13)	66.7% (102)	14.4% (22)
b) Tai Sacco offers my business amount of credit that is sufficient to support the needs of my business	9.2% (14)	9.2% (14)	11.8% (18)	63.4% (97)	6.5% (10)
c) My profit margins increased with the increase in amount of credit that I access from Tai Sacco	5.2% (8)	6.5% (10)	15% (23)	65.4% (100)	7.8% (12)
d) I stock more goods and offer a variety of services due to financial strength that I get from the loans	2% (3)	7.8% (12)	13.1% (20)	73.2% (112)	3.9% (6)
e) With the amount of loan I access from Tai Sacco I am able to have more stock for my customers hence have a high sales turnover	3.9% (6)	9.8% (15)	13.7% (21)	54.2% (83)	18.3% (28)

#### 4.3.11 Effect of frequency of credit on the financial performance of MSEs

To establish the effect frequency of credit has on the financial performance of MSEs, the independent variable was studied and the results obtained tabulated as shown by table 13 below.

The tabulated results, 6.5% strongly disagreed that the frequency of credit obtained helped them meet their business demands, 4.6% disagreed, 20.3% were neutral, 61.4% agreed that the frequency of credit obtained helped them meet their business demands while 7.2% strongly agreed. On the other hand, 8.5% strongly disagreed that the frequency of credit increased their credit ceiling hence more credit, 10.5% disagreed, 15.7% were neutral, 54.9% agreed that frequency of credit increased their credit ceiling hence more credit while 10.5% strongly agreed.

Besides, 2% strongly disagreed that they would request for more loan, 5.9% disagreed, 9.2% were neutral while 70.6% agreed that would request for more loan and 12.4% strongly agreed. Finally, 3.9% strongly disagreed loan processing procedure and time taken was satisfactory, 4.6% disagreed, 13.7% were neutral while 58.8% agreed that loan processing procedure and time taken was satisfactory and 19% strongly agreed.

**TABLE 13**  
**Distribution of how frequency of credit affects the financial performance of MSEs**

	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Tai Sacco allows us to access loans frequently hence meeting the demands of my business in time.	6.5% (10)	4.6% (7)	20.3% (31)	61.4% (94)	7.2%(1 1)
With increased access to credit from Tai Sacco my credit ceiling increases allowing me to access more credit and perform better.	8.5% (13)	10.5% (11)	15.7% (16)	54.9% (84)	10.5% (16)
I would request for more credit once I complete repaying the loan I have to ensure steady profits	2% (3)	5.9% (9)	9.2% (14)	70.6% (108)	12.4% (19)
The loan processing procedure and time in Tai Sacco is satisfactory enhancing my business performance	3.9% (6)	4.6% (7)	13.7% (21)	58.8% (90)	19% (29)

*Source: Primary research data*

#### 4.3.12 Effect of credit terms on the financial performance of MSEs

To establish the effect frequency of credit has on the financial performance of MSEs, the independent variable was studied and the results obtained tabulated as shown by table 14 below.

The tabulated results, 0.7% strongly disagreed that the frequency credit terms affected their profitability, 62.1% disagreed, 22.2% were neutral, 11.1% agreed that the credit terms affected their profitability while 3.9% strongly agreed. On the other hand, 2% strongly disagreed that the credit period was sufficient, 2% disagreed, 15.7% were neutral, 60.1% agreed that credit period was sufficient while 20.3% strongly agreed

Besides, 3.9% strongly disagreed that favourable credit terms helped increase fixed assets, 6.5% disagreed, 15.7% were neutral while 57.5% agreed that favourable credit terms helped increase fixed assets and 16.3% strongly agreed. Finally, 7.2% strongly disagreed that the interest rates were favourable, 3.3% disagreed, 22.9% were neutral while 59.5% agreed that interest rates were favourable and 7.2% strongly agreed

**TABLE 14**  
**Distribution of how credit terms affect the financial performance of MSEs**

	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
a) The credit term my business if offered by Tai Sacco is favorable and enhances the profitability of my business	0.7%(1)	62.1%(95)	22.2%(34)	11.1%(17)	3.9%(6)
b) Credit terms from Tai Sacco allows me enough time to repay the loan hence ensuring my increased productivity	2%(3)	2%(3)	15.7%(24)	60.1%(92)	20.3%(31)
c) Credit terms of Tai Sacco loans allows us to increase fixed assets	3.9%(6)	6.5%(10)	15.7%(24)	57.5%(88)	16.3%(25)
d) Tai Sacco offer affordable interest rates that support business growth	7.2%(11)	3.3%(5)	22.9%(35)	59.5%(91)	7.2%(11)

#### ***4.3.13 Effects of the Amount, Frequency and Terms of Credit on the Profitability of MSEs***

To establish the effect amount, frequency and terms of credit have on profitability of MSEs, the three independent variables were studied and the results obtained tabulated as shown by table below.

From table 14 below, 79% indicated that the amount of credit advanced by Tai Sacco affected their profitability while 21% indicated that the amount borrowed had no effect on profitability. Of the 79%, 17% indicated that the amount of credit obtained affected profitability to an excellent extent, 45.8% to an above average extent, 17% to an average extent, 3.3% to a below average extent while 17% indicated a poor extent as indicated in the table 14 below

From table 14 below, 75% indicated that the frequency of credit advanced by Tai Sacco affected their profitability while 25% indicated that the frequency of credit had no effect on their profitability. Of the 75%, 21.6% indicated that the frequency of credit affected their profit to an excellent extent, 43.8% to an above average extent, 15.7% to an average extent, 2.6% to a below average extent while 16.3% indicated a poor extent as pointed out in the table 14 below.

76% indicated that the terms of credit in Tai Sacco affected their profitability while 24% indicated that the terms of credit had no effect on their profitability. Of the 76%, 20.9% indicated that the frequency of credit affected their level of fixed assets to an excellent extent, 35.9% to an above average extent, 5.9% to an average extent, 5.2% to a below average extent while 3.2% indicated a poor extent as indicated in the table 15 below

**TABLE 15**  
**Distribution of how Amount, Frequency and Terms of Credit affect the Profitability of MSEs**

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
Amount of credit that you access from TAI SACCO	17% (26)	45.8% (70)	17% (26)	3.3% (5)	17% (26)
The frequency of access to credit from TAI SACCO	21.6% (33)	43.8% (67)	15.7% (24)	2.6%(4)	16.3% (25)
The credit terms that is offered by the SACCO	20.9% (32)	35.9%(55)	5.9% (9)	5.2% (8)	32% (49)

**4.3.14 Effects of the Amount, Frequency and Terms of Credit on the Turnover of MSEs**

To establish the effect amount, frequency and terms of credit have on turnover of MSEs, the three independent variables were studied and the results obtained tabulated as shown by table below.

From table 16 below, 80% indicated that the amount of credit advanced by Tai Sacco affected their turnover while 20% indicated that the amount borrowed had no effect on turnover. Of the 80%, 14.4% indicated that the amount of credit obtained affected turnover to an excellent extent, 47.1% to an above average extent, 19.6% to an average extent, 4.6% to a below average extent while 14.4 % indicated a poor extent as indicated in the table 16 below

From table 16 below, 84% indicated that the frequency of credit advanced by Tai Sacco affected their turnover while 16% indicated that the frequency of credit had no effect on their turnover. Of the 84%, 22.9% indicated that the frequency of credit affected their profit to an excellent extent, 47.1% to an above average extent, 14.4% to an average extent, 2.0% to a below average extent while 13.7% indicated a poor extent as indicated in the table 16 below

From table below, 76% indicated that the terms of credit in Tai Sacco affected their turnover while 24% indicated that the terms of credit had no effect on their turnover. Of the 76%, 27.5% indicated that the frequency of credit affected their level of turnover to an

excellent extent, 40.5% to an above average extent, 6.5% to an average extent, 1.3% to a below average extent while 24.2% indicated a poor extent as indicated in the table 16 below

**TABLE 16**  
**Distribution of how Amount, Frequency and Terms of Credit affect the Turnover of MSEs**

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
Amount of credit that you access from TAI SACCO	14.4% (22)	47.1% (72)	19.6% (30)	4.6% (7)	14.4% (22)
The frequency of access to credit from TAI SACCO	22.9% (35)	47.1% (72)	14.4% (22)	2.0% (3)	13.7% (21)
The credit terms that is offered by the SACCO	27.5% (42)	40.5% (62)	6.5% (10)	1.3% (2)	24.2% (37)

**4.3.15 Effects of the Amount, Frequency and Terms of Credit on the fixed assets of MSEs**

To establish the effect amount, frequency and terms of credit have on fixed assets of MSEs, the three independent variables were studied and the results obtained tabulated as shown by table below.

Of the 79%, 17% indicated that the amount of credit obtained affected their level of fixed assets to an excellent extent, 45.8% to an above average extent, 18.3% to an average extent, 4.6% to a below average extent while 14.4% indicated a poor extent while 21% indicated that amount of credit had no effect on level of fixed assets as shown in the table 16 below.

In the 75% who indicated that frequency of credit affected their level of fixed assets, 20.9% indicated that the frequency of credit affected their level of fixed assets to an excellent extent, 48.4% to an above average extent, 13.7% to an average extent, 2.0% to a below average extent while 15% indicated a poor extent while 25% indicated that frequency of credit had no effect on the level of fixed assets as shown in the table 16 below

Of the 82%, 26.8% indicated that the credit terms affected their level of fixed assets to an excellent extent, 41.2% to an above average extent, 6.5% to an average extent, 1.3% to a

below average extent while 24.2% indicated a poor extent while 18% indicated that credit terms had no effect on the level of fixed assets as shown in the table 17 below

**TABLE 17**  
**Distribution of how Amount, Frequency and Terms of Credit affect the fixed assets of MSEs**

	<b>E</b>	<b>AA</b>	<b>Average</b>	<b>BA</b>	<b>P</b>
Amount of credit that you access from TAI SACCO	17%(26)	45.8% (70)	18.3%(28)	4.6%(7)	14.4%(22)
The frequency of access to credit from TAI SACCO	20.9%(32)	48.4%(74)	13.7% (21)	2.0%(3)	15.0%(23)
The credit terms that is offered by the SACCO	26.8%(41)	41.2%(63)	6.5%(10)	1.3%(2)	24.2%(37)

**4.3.16 Effects of the Amount, Frequency and Terms of Credit on the Stock levels of MSEs**

To establish the effect amount, frequency and terms of credit have on stock levels of MSEs, the three independent variables were studied and the results obtained tabulated as shown by table below.

Of the 71%, 17% indicated that the amount of credit obtained affected their level of stock to an excellent extent, 36.6% to an above average extent, 22.2% to an average extent, 7.8% to a below average extent while 16.3% indicated a poor extent while 29% indicated that amount of credit had no effect on stock levels as shown in the table 18 below

In the 78%, 16.3% indicated that the frequency of credit affected their level of stock levels to an excellent extent, 43.1% to an above average extent, 17.0% to an average extent, 6.5% to a below average extent while 17% indicated a poor extent while 22% indicated that frequency of credit had no effect on stock levels as shown in the table 18 below

Of the 66%, 24.2% indicated that the frequency of credit affected their level of stock levels to an excellent extent, 34.6% to an above average extent, 13.1% to an average extent, 3.9% to a below average extent while 24.2% indicated a poor extent while 34% indicated that credit terms had no effect on stock levels as shown in the table 18 below



$$Y = 281.15 + 3.26 X_1 - 3.26 X_2 - 0.025 X_3 \dots \dots \dots (iii)$$

From this regression model, taking the entire set of independent variables (X1, X2, and X3) constant the financial performance MSEs stands at 281.15 units. This value represents the financial performance of MSEs without credit facilities. The value is positive implying that MSEs make profits even without the credit facilities. If all the other variables are held constant amount of credit as subset credit accessibility contributes to an increase in performance by 3.26%. The increase is marked by the positive sign of the estimated value of X1 (+3.26). This implies that amount of credit accessed positively adds to the financial performance of MSEs. From the model it can also be deduced that holding all other variables constant frequency of credit decreases the financial performance of MSEs by 3.26%. Credit terms, on the other hand, leads to a decrease in performance by 0.025%.

**TABLE 20**  
**Coefficient of Determination**

<b>Model</b>	<b>R</b>	<b>R-Square</b>	<b>Adjusted R-Square</b>
<b>1</b>	0.9976	0.9954	0.9815

The three independent variables that were studied only explain 99.54% of the changes in the financial performance of MSEs. This is explained by the coefficient of determination and represented by R square. Therefore, the study concludes that there exists a strong positive significant correlation between credit accessibility and financial performance MSEs.

To test for variations in the model an Analysis of Variance (ANOVA) was conducted. This was useful in explaining the level of significance of the model as a representation of the population. The results are as represented by the report below;

**TABLE 21**  
**Model Significance**

<b>Model</b>	<b>D.F</b>	<b>F-critical</b>	<b>P-value</b>	<b>F-calculated</b>
<b>Regression</b>	3	71.63	0.08659	0.15

The probability value of 0.08659 (since  $0.08659 > 0.05$ ) shows that the multiple regression was insignificant in predicting how credit accessibility impacts the financial the performance of MSEs. The F critical at 5% level of significance was 71.63 while the F calculated was 0.15. Since the F calculated was less than F critical, this shows that the overall model was insignificant. The implication of this insignificance is that there is no convincing evidence that credit accessibility impacts on the financial performance of MSEs. Financial performance is as a result of credit accessibility, good management, policies and strategies incorporated together. Since F statistics calculated is less than the F statistics critical we accept the null hypothesis and conclude that the model is insignificant

## **CHAPTER FIVE**

### **DISCUSSION OF RESULTS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter, the researcher has outlined the summary of the findings, discussion and conclusions that were obtained from the findings as indicated and puts forward policy recommendations that were made. The conclusions and recommendations are aimed at addressing the research objectives that were studied in an effort to establishing the effect of credit accessibility on the financial performance of MSEs in Kiambu County. At the end of it the researcher has also suggested possible areas for further study

#### **5.2 Summary of Major Findings**

In this section the researcher has discussed the findings on the three specific objectives based on the data collected and the accompanying analysis to firm up as follows:

Results indicated that there is a significant positive association between amount of credit and the financial performance of MSEs. This finding was consistent with Dunn (2001); Hassan, Ibrahim & Bauer (2012); Garcaí-Teruel & Martn ez-Solano (2014) who affirmed that there existed a positive relationship between access to credit and profitability of MSEs. On the other hand results indicated that there was a negative association between frequency of credit and the financial performance of MSEs. This finding is consistent with Mochona (2006); Buckley (2007) who concluded that there was little evidence to suggest any significant and sustained impact of access to credit on beneficiaries in terms of operations and increased income The main argument was that improved access to credit and markets was not sufficient unless there was an accompanying change in the undertakings themselves i.e. changes in techniques and technology.

Similarly, results indicated that there was a significant negative association between credit terms and financial performance of MSEs. This finding is consistent with Kogut (1985); Grant, Jammine and Thomas(1988), who affirm that in presence of favorable credit terms, access to finance is enhanced with improved liquidity to finance their capital investment and daily operational needs. Hence a firm can invest in more ventures and increase its sales volume.

Higher sales volume and production will lead to increased revenues and profitability which means improved financial performance. This implies that in the presence of favorable credit terms, financial performance of SMEs will be enhanced with ease of acquisition of loans. Similarly, stringent credit terms make it difficult for firms to access loans.

### **5.3 Discussion of Research Findings**

From the findings enumerated above, it is evident that there was a significant positive association between amount of credit and financial performance of MSEs. These results were consistent with existing literature that easy credit accessibility by MSEs as measured by amount of credit accessed facilitates further growth and expansion of their businesses (Berger and Udell, 2006). More so, Schmidt & Kropp (1998) assert that for MSEs, reliable access to short term and small amounts of credit are more valuable and emphasizing it may be more appropriate in credit programs aimed at such enterprises success.

This means that in the presence of improved access to credit, financial performance of MSEs will be enhanced. This was in line with Ogujiuba (2004); Ojo (1992) and CBN (2007), who argue that improved access of credit by MSEs leads to survival, increased sales, higher profitability and low cost of doing business. The performance of MSEs increases with increase in leveraging considering that debt is cheaper than equity due to the tax shield. Presence of debt also helps the MSEs to fund their working capital and its overall effect is improved financial performance.

However, MSEs have be cautious of high gearing which may be expensive especially in the face of high interest rates which increases the cost of borrowed funds and balloons the cost of doing business. On the other hand, MSEs fail to obtain finance from financial institutions, due to an information gap, which prevents them from knowing how and where to obtain this credit on acceptable terms, and the risk associated with their failure to pay back funds. The implication is that small businesses face funding limit, and are discriminated against in credit markets, which leads to large firms crowding out smaller firms in the market. The lack of adequate funding means that MSEs will experience low incomes, low profits and low capital formation.

Credit terms on the other hand can either be favourable or unfavourable. The findings of this study indicated a negative relationship between credit terms offered by Tai Sacco and finance of MSEs. This in itself indicated that the terms of credit by Tai Sacco were unfavourable and therefore affected the performance of MSEs negatively. Credit terms offered by Saccos in terms of interest rates, repayment period and the collateral requirements, often times constitute the cost of borrowed funds which consequently impacts on their bottom line as indicated by this study. This in itself translates into a huge impediment on the financial performance of MSEs as by parameters such as profitability, turnover, stock levels and fixed assets. As a result the expected spiral affects of good performance of MSEs such as creation of employment, growth in GDP among others end up being unrealized.

Equally, frequency of borrowing in this study had negative relationship with MSEs performance. This indicates that the higher the frequency the lower the performance by MSEs. This shows that, in an environment of unfavourable credit terms, the many times that the MSEs borrow the higher the combined cost of borrowing which makes the bottom line of the MSEs to go down.

It is in this interest that MSEs should seek finance with favourable terms in order to mitigate on the cost of borrowed funds which would otherwise affect their performance negatively

#### **5.4 Conclusions**

In conclusion, it was observed that there was a positive significant association between the amount of credit accessed and the financial performance of MSEs while there existed a negative relationship between frequency of credit and the credit terms respectively on the financial performance of MSEs. The higher the frequency of loans may increase the cost of borrowing of the specific MSE which entails contractual costs and the interest component.

On the other hand, favorable credit terms including interest rates, collateral and repayment periods enabled MSEs access required amounts of credit thus leading to improved financial performance in terms of profitability, turnover, stock levels and fixed assets. However, unfavorable credit terms such as high interest rates, lack of collateral security and short repayment periods deprived some MSEs from accessing credit therefore leading to their failure

Furthermore, there are other factors that were found to influence financial performance of MSEs other than the ones studied in this study such as the presence of a yawning information gap between lenders and borrowers and high transactional costs. The presence of an information gap made MSEs unable to know where to obtain favourable finance in terms of good terms. Consequently, MSEs end up borrowing expensively which sometimes may lead to risk of default which leads to stringent credit terms and therefore difficult for MSEs to access finance. Equally, high transaction costs also influence access to finance and eventually affect the performance of MSEs negatively.

## **5.5 Study Recommendations**

In view of the above findings, discussions and the conclusions, the following recommendations are hereby stated:

That the policy makers in Government should formulate policies that will encourage financial institutions to relax their restrictive regulations and operations which may discourage borrowing and offer more credit facilities for MSEs. That the Government considers allocating resources aimed at boosting managerial and financial literacy of MSEs through formal and informal entrepreneurial education to develop their managerial capacity, financial literacy, accounting skills all geared towards making them more credit worthy. Seed capital from the Government and more business associations like Kenya Association of Manufacturers should be encouraged.

Business entrepreneurs should be encouraged to upgrade their managerial competencies by going for training courses and attending business development services that will improve their skills and knowledge. This will enable them compete favorably in the competitive environment.

Based on the findings, it can therefore be recommended that in order to improve the financial performance of MSEs, there is need by the owners to fulfill the set credit terms in order to maintain a good relationship with the financial institutions. This will help to receive favourable terms when they wish to borrow again because of their good borrowing record. This in return will help them maintain adequate liquidity for their working capital requirements because they can always access credit when need arises

## **5.6 Areas for further research**

This study focused on the effect of credit accessibility on the financial performance of MSEs in Kiambu County. The researcher suggests further research on the following areas:

- Effect of managerial competence on the overall performance of MSEs to investigate how managerial competence contributed to the performance of MSEs
- Effect of information availability and other factors that affect the financial performance of MSEs to investigate how information availability reduced the risk premium charged on loans to MSEs therefore making cheap credit available
- Effect of information sharing to the financial performance of MSEs to investigate the role of credit reference bureaus in making credit cheaper and more available
- Effect of insurance on the credit accessibility by MSEs to investigate how insurances such as African Trade Insurance (ATI) have contributed to the availability of finance for MSEs.

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6. What is the form of ownership of your business?

Sole proprietorship [ ]

Partnership [ ]

7. What kind of business do you run?

Manufacturing [ ]

Service [ ]

Trade [ ]

8. For how long has your business been in existence?

Less than 5 years [ ]

5-10 years [ ]

10+ [ ]

9. What is the largest single amount have you ever borrowed from Tai Sacco

Below 500,000 [ ] 500,000 – 1000,000 [ ] 1000, 000+ [ ]

10. How many times have you borrowed from Tai Sacco?

Less than 3 times [ ]

less than 5 times [ ]

**SECTION B: Amount of Credit and Financial performance of MSEs**

11. In a 5-point likert scale of 1- Strongly Disagree, 2- Disagree 3- Neutral, 4- Agree, and 5-Strongly Agree, rate the following statements on the level of influence of amount of credit from Tai Sacco and the financial performance of your organization.

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
f) The amount of loans I get from Tai Sacco has enabled my business support more customers hence ensure my increased profit margin					

g) Tai Sacco offers my business amount of credit that is sufficient to support the needs of my business					
h) My profit margins increased with the increase in amount of credit that I access from Tai Sacco					
i) I stock more goods and offer a variety of services due to financial strength that I get from the loans					
j) With the amount of loan I access from Tai Sacco I am able to have more stock for my customers hence have a high sales turnover					

**SECTION C: Frequency of Credit and the Financial Performance of MSEs**

12. To what extent does the frequency of access to credit influence the performance of your business?

- Very great extent [ ]      great extent [ ]      moderate extent [ ]  
 Low extent [ ]      Very low extent [ ]

13. The following statements relate to the extent to which the frequency of access to credit influences the performance of small and medium enterprises. In a 5-point likert scale of 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree, to what extent do you agree with each of the statement?

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a) Tai Sacco allows us to access loans frequently hence meeting the demands of my business in time					
b) With increased access to credit from Tai Sacco my credit ceiling increases allowing me to access more credit and perform better					
c) I would request for more credit once I complete repaying the loan I have to ensure steady profits					
d) The loan processing procedure and time in Tai Sacco is satisfactory enhancing my business performance					

**SECTION D: Terms of Credit and the Financial Performance of MSEs**

14. To what extent does the terms of credit from Tai Sacco affected the performance of your business?

Very great extent [ ]      Great extent [ ]      Moderate extent [ ]

Low extent [ ]      Very low extent [ ]

15. To what level can you rate the following statement on the influence credit terms on the financial performance of MSEs

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
e) Tai Sacco offers is favorable interest rates thus enhancing the profitability of my business					
f) Credit terms from Tai Sacco allows me enough time to repay the loan hence ensuring my increased profitability					
g) Tai Sacco loans are flexible and convenient thus boost my business performance					
h) Tai Sacco offer affordable interest rates that support business growth					

**SECTION E: Financial Performance of the MSEs**

16. To what extent has your business's financial performance been impacted by the following?

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Amount of credit that you access from TAI SACCO					
The frequency of access to credit from TAI SACCO					
The credit terms that is offered by the SACCO					

17. To what extent has your business's turnover been impacted by the following?

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Amount of credit that you access from TAI SACCO					

The frequency of access to credit from TAI SACCO					
The credit terms that is offered by the SACCO					

18. To what extent has your business's stock levels been impacted by the following?

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Amount of credit that you access from TAI SACCO					
The frequency of access to credit from TAI SACCO					
The credit terms that is offered by the SACCO					

19. Since you started using the credit products from TAI SACCO, what is the effect on the fixed assets of your business as measured by the parameters below

	<b>Excellent</b>	<b>Above Average</b>	<b>Average</b>	<b>Below Average</b>	<b>Poor</b>
	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Amount of credit that you access from TAI SACCO					
The frequency of access to credit from TAI SACCO					
The credit terms that is offered by the SACCO					

20. In your opinion, what areas should be improved on the terms of credit to enhance access to finance by Micro and Small Enterprises?

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**APPENDIX II**  
**List of Tai SACCO Branches used in the Study**

<b>Branch</b>	<b>Sub County</b>	<b>Town</b>	<b>Physical address</b>
Githunguri	Githunguri	Githunguri	Tai Plaza
Gatundu	Gatundu South	Gatundu	Next to Sub county offices
Kamwangi	Gatundu North	Kamwangi	Tai Sacco Bdlg
Kagwe	Lari	Kagwe	Next to Family Bank
Kigumo	Githunguri	Kigumo	Next to GDRF
Ruiru	Ruiru	Ruiru	Opposite Ruiru Post Office
Thika	Thika town	Thika	Marafique Plaza